

# Telephone Report to the Regulatory Flexibility Committee of the Indiana General Assembly

Federal  
Court of  
Appeals  
Decisions

STOP

FCC  
Rulings

No  
Passing  
Zone

DETOUR

YIELD

Interconnection  
Agreements

"The  
Communications  
Highway"

Presented by:  
Indiana Utility Regulatory Commission  
July 1, 1998

TELEPHONE REPORT  
TO THE  
REGULATORY FLEXIBILITY COMMITTEE  
OF THE  
INDIANA GENERAL ASSEMBLY

---

*An analysis of the effects of competition on universal service and on  
pricing of all telephone services under the jurisdiction of the  
Indiana Utility Regulatory Commission.*

---

July 1, 1998

*Submitted by the Indiana Utility Regulatory Commission*

**William D. McCarty**  
*Chairman*

**G. Richard Klein**  
*Commissioner*

**Camie Swanson-Hull**  
*Commissioner*

**David E. Ziegner**  
*Commissioner*

**TABLE OF CONTENTS**

<b>1. INTRODUCTION</b>	<b>1</b>
PURPOSE OF THE REPORT	1
Legislative Mandate	1
Scope of Report	1
<b>2. SUMMARY AND CONCLUSIONS</b>	<b>3</b>
<b>3. LOCAL EXCHANGE COMPETITION</b>	<b>8</b>
WHOLESALE TARIFFS	9
INTERCONNECTION AGREEMENTS	10
Cost Investigation for Interconnection and Unbundled Network Elements	11
Federal Court Appeals	13
Appeal of FCC's First Report and Order to 8th Circuit Court of Appeals	13
Appeal of Arbitrated Interconnection Orders in Federal Court	15
LOCAL EXCHANGE CTAs AND TARIFFS	16
MARKET PERFORMANCE DATA AND ANALYSIS	17
LOCAL EXCHANGE COMPETITION: STATUS AND STRATEGIES	21
RURAL LEC PETITIONS UNDER THE TA-96	24
PAYPHONES/FCC PREEMPTION	25
NUMBER PORTABILITY	27
SLAMMING	32
INVESTIGATION OF TELEPHONE COMPANY BILLING PRACTICES	33
<b>4. UNIVERSAL SERVICE</b>	<b>34</b>
INDIANA HIGH COST FUND (IHCF)	34
PUBLIC INTEREST PAYPHONES	36
TRANSITIONAL DEM WEIGHTING FUND	36
SUBMISSION OF STATE-SPONSORED COST MODEL FOR USF	37
ELIGIBLE TELECOMMUNICATIONS CARRIERS	38
<b>5. OPPORTUNITY INDIANA: AMERITECH INDIANA'S     REQUEST FOR NEW FLEXIBLE REGULATION</b>	<b>40</b>
INFRASTRUCTURE AND EDUCATION INVESTMENTS	45

FREE SUBSCRIPTION PROGRAM RESULTS .....	48
QUALITY OF SERVICE .....	49
<b>6. RBOC ENTRY INTO INTERLATA LONG DISTANCE .....</b>	<b>51</b>
BACKGROUND .....	51
SEPARATE SUBSIDIARY REQUIREMENT .....	52
STATEMENT OF GENERALLY AVAILABLE TERMS (SGAT) .....	53
IURC INVESTIGATION INTO AMERITECH'S COMPLIANCE WITH SECTION 271 (IURC CAUSE NO. 40641) .....	54
<b>7. EXTENDED AREA SERVICE (EAS) .....</b>	<b>55</b>
GTE LOCAL CALLING PLAN .....	56
LAKE COUNTY EAS .....	57
<b>8. NUMBER ADMINISTRATION .....</b>	<b>59</b>
<b>9. EQUAL ACCESS INTRASTATE, INTRALATA TOLL .....</b>	<b>61</b>
<b>10. FINANCIAL AND OTHER INDUSTRY STATISTICS .....</b>	<b>63</b>
<b>11. ACKNOWLEDGMENTS .....</b>	<b>65</b>
<b>12. LIST OF ACRONYMS .....</b>	<b>66</b>
<b>13. LIST OF APPENDICES .....</b>	<b>67</b>

## **1. INTRODUCTION**

---

### **PURPOSE OF THE REPORT**

#### **Legislative Mandate**

This report to the Regulatory Flexibility Committee of the Indiana General Assembly is mandated by the provisions of P. L. 55-1992, § 1, currently codified as Ind. Code 8-1-2.6-4(c), which specify that:

The commission shall, by July 1, 1993, and each year thereafter, prepare for presentation to the regulatory flexibility committee an analysis of the effects of competition on universal service and on pricing of all telephone services under the jurisdiction of the commission.<sup>1</sup>

The Regulatory Flexibility Committee of the Indiana General Assembly is also required under the provisions of Ind. Code 8-1-2.6-4(d) to:

issue a report and recommendations to the legislative council by November 1, each year that is based on a review of the following issues:

- (1) The effects of competition in the telephone industry and impact of competition on available subsidies used to maintain universal service.
- (2) The status of modernization of the public telephone network in Indiana and the incentives required to further enhance this infrastructure.
- (3) The effects on economic development and educational opportunities of this modernization.
- (4) The current method of regulating telephone companies and the method's effectiveness.
- (5) The economic and social effectiveness of current telephone service pricing.
- (6) All other telecommunications issues the committee deems appropriate.

#### **Scope of Report**

The goal of the Telecommunications Act of 1996 ("TA-96" or "Act"), is to introduce competition into all facets of the telecommunications industry. The TA-96 gave state commissions considerable responsibility to implement the provisions of the Act related to intrastate telecommunications, particularly local exchange competition and universal service. A great deal of the Indiana Utility Regulatory Commission's (IURC or Commission) time and resources has been devoted to that task over the last two years. The Commission's 1998 report focuses on its efforts to carry out the goals and objectives of the TA-96.

---

<sup>1</sup> Senate Enrolled Act No. 222, § 1.

The report also contains an analysis of market performance since competition was introduced in the local exchange market under the TA-96, and an update of the telecommunications industry statistics contained in the five previous reports submitted by the Commission.

## **2. SUMMARY AND CONCLUSION**

---

### **Local Exchange Competition**

State commissions are charged with performing specific regulatory duties under the TA-96 that are meant to initiate pro-competitive policies at the local exchange level. State commissions must also undertake new administrative responsibilities that include advancing the goals of universal service and establishing policies for access to advanced telecommunications services by schools, libraries and health care providers.

Since last year's report, the following progress has been made in the local telephone exchange competition investigation and implementation of the TA-96:

- the Commission reviewed for compliance and approved 55 voluntarily negotiated interconnection agreements and amendments to allow entry into local telephone service
- on July 9, 1997, the Commission adopted the discount matrix appearing in paragraph 520 of FCC Order No. 97-157 for purposes of the federal schools and libraries program under the TA-96
- on October 15, 1997, the Commission further clarified certain conditions necessary to allow the resale of local exchange services by alternative local exchange carriers (ALECs) and ordered the incumbent local exchange carriers (ILECs) to file wholesale service tariffs
- on November 5, 1997, the Commission established the framework for two programs designed for qualifying low-income customers—Lifeline and Link-Up
- in December 1997, the Commission opened a proceeding to investigate number portability implementation, including all operational considerations, as well as cost recovery issues, to allow consumers to change their local exchange service provider and retain their telephone number without any loss of service quality.
- on December 30, 1997, the Commission established processes for the formation, administration and operation of a Transitional DEM Weighting Fund and implementation of certain access charge structure changes
- on April 23, 1998, the Commission adopted the Benchmark Cost Proxy Model (BCPM) cost model for purposes of calculating federal universal service support.

- on May 7, 1998 and June 30, 1998, for GTE North, Inc. (GTE) and Ameritech Indiana, respectively, the Commission issued decisions in its cost investigations into the rates for interconnection and unbundled network elements (UNE) under the TA-96.

The TA-96 requires state commissions to determine "just and reasonable" rates for interconnection and UNEs. The compressed schedules established by the TA-96 for arbitration of interconnection agreements did not allow the Commission sufficient time to evaluate Ameritech Indiana's or GTE's cost studies and establish permanent rates. Thus, the Commission set interim rates subject to true-up pending further investigation. After investigation the Commission rejected major portions of GTE's proposed cost study because it did not follow the guidelines of the TA-96 and ordered GTE to submit a new cost study. Similar to GTE's case, the Commission rejected much of Ameritech Indiana's cost study. In both cases the Commission set interim rates until a full investigation of the companies operational support systems is completed.

As of June 30, 1998, the Commission had received 34 requests for arbitration under the TA-96 (27 involved Ameritech Indiana; 6 involved GTE; and 1 involved Cincinnati Bell Telephone). The Commission approved three of Ameritech Indiana's arbitration agreements; twenty-three arbitrations were dismissed. The Commission approved one of GTE's arbitration agreements; the rest are pending. The Cincinnati Bell Telephone (CBT) arbitration is pending until the Ohio Public Utilities Commission issues an order on certain issues, per agreement of the parties.

Twenty-six of the Commission's arbitration proceedings were appealed to the United States District Court for the Southern District of Indiana.

As of June 30, 1998, the Commission has approved 55 voluntarily negotiated interconnection agreements and amendments, many of which have been for reciprocal compensation between ILECs and the providers of cellular/mobile telecommunications services. The Commission met all of the relevant statutory deadlines set forth in the TA-96 regarding negotiated and arbitrated agreements and, in many cases, issued its orders in advance of the required date.

To date, the Commission has issued a total of 79 CTAs to carriers (ALECs) to provide local exchange telecommunications services in competition with incumbent local exchange carriers. Twenty-one of these CTAs were for the provision of local exchange services through the ALEC's own facilities, whereas the remainder of the CTAs were granted for the provision of bundled local exchange services purchased for resale from ILECs.



Over two years have passed since the passage of the TA-96, and the data indicate that local competition in Indiana is virtually non-existent. As of December 31, 1997, the number of resold local service lines in Indiana was reported as 159 (24 "Residential customer lines" and 135 "Other customer lines" by Ameritech Indiana; neither GTE nor Sprint-United reported any resold local lines). The number of service lines sold as UNEs was reported as 5 by Ameritech Indiana; GTE and Sprint-United both reported zero. Additionally, based upon IURC fee billing data, less than one-half of one percent (specifically, 0.30 percent) of the total 1997 revenues reported from both local exchange service and intrastate access service were received by ALECs. A majority of ALECs (43, both facilities-based and resale) of the 48 ALECs certified prior to January 1, 1998, reported no intrastate revenues from local exchange service or intrastate access service for 1997.

### **Slamming**

During the 1998 session, the Indiana General Assembly passed anti-slamming legislation that prohibits telecommunications providers from switching customers to other providers without customer authorization. The bill, effective July 1, 1998, also outlaws "cramming" by prohibiting telecommunications providers from billing for services added to a customer's service order without the customer's authorization. The law requires the IURC to promulgate rules, which were initiated in May 1998.

### **Opportunity Indiana: Ameritech Indiana's Request For New Flexible Regulation**

On May 4, 1993, Indiana Bell Telephone Company, Inc., d/b/a Ameritech Indiana, filed an alternative regulation plan with the Commission. The proposal, filed pursuant to I.C. 8-1-2.6, was referred to by the company as "Opportunity Indiana." During the proceeding, Ameritech Indiana reached a series of settlement agreements with various parties that generally resolved and, in some cases, deferred disputed issues. Together these settlement agreements formed the foundation of the Commission's order that was issued on June 30, 1994. Ameritech Indiana received increased regulatory flexibility through December 31, 1997, with respect to the provision of pricing of its telecommunications services.

In anticipation of the expiration of Opportunity Indiana, Ameritech Indiana on May 1, 1997, again sought flexible regulatory authority under I.C. 8-1-2.6. Recognizing the possibility that the Commission might not be able to issue a final order on a comprehensive replacement regulatory structure by December 31, 1997, Ameritech Indiana also included a request to extend the existing terms of Opportunity Indiana on an interim basis in its petition.

On October 15, 1997, the Commission issued its Preliminary Order on Interim Relief which concluded that it would be in the public interest to decline to exercise at least some of its jurisdiction over

Ameritech Indiana on an interim basis. However, based upon the evidence, the Commission concluded that interim relief should not take the form of Ameritech Indiana's existing Opportunity Indiana plan.

The Commission issued a Final Order on Interim Relief on December 30, 1997. The Commission reasserted its jurisdiction over several areas of Ameritech Indiana's operations. The Final Order required Ameritech Indiana to: 1) apply Customer Specific Offering requirements previously adopted in Cause No. 38561 to the company's customer-specific, i.e., non-tariffed, contracts; 2) file market performance reports similar to those required of new entrants in the local market; 3) submit reports filed by other ILECs; 4) maintain depreciation records subject to the Uniform System of Accounts; 5) periodically report quality of service indices; 6) fulfill remaining infrastructure investments agreed to in Opportunity Indiana; and 7) decrease its residential and business rates by 4.6 percent.

Ameritech Indiana appealed the Commission's Final Order to the Indiana Court of Appeals. Ameritech Indiana asserted that the Commission's order was without sound evidentiary basis and was contrary to law when it reduced the company's residential and business rates for basic local service and directed Ameritech Indiana to make infrastructure investments of no less than \$150 million through 1999. The case is presently pending.

The Final Order directed Ameritech Indiana to file a report with the Commission by April 3, 1998, outlining its compliance with the infrastructure provisions set forth in the original Opportunity Indiana case. Ameritech Indiana did file an Infrastructure Report with the Commission on April 3, 1998, in which it claimed that the total infrastructure expenditures for the Opportunity Indiana infrastructure commitment totaled \$79.4 million, not the \$15.6 million that had been reported by Ameritech Indiana during the public hearing in Cause No. 40849 in June 1997. On June 16, 1998, the Commission issued a Docket Entry requesting that Ameritech Indiana provide additional information about the infrastructure investment.

### **Financial And Other Industry Statistics**

The telecommunication services industry in Indiana represents a market with intrastate gross revenues for 1997 of \$2.42 billion. This represents an increase in revenues of 3.46 percent over the 1996 level. The compound annual growth rate during the 1993-1997 period was 6.07 percent. LEC intrastate operations accounted for \$1.47 billion or 60.58 percent of the telecommunications gross intrastate revenues in 1997. Facilities-based IXC's accounted for 13.79 percent of the gross intrastate telecommunications services revenues. AT&T Communications' share of the IXC facilities-based intrastate gross revenues amounted to 68.8 percent in 1997, down from 70.0 percent in 1996 and down from 71.1 percent in 1993.

Indiana LECs have continued to proceed with modernization programs in their telecommunications networks. As a result of such modernization programs, 91.80 percent of the LECs' access lines are served by fully digital central office (CO) switching equipment. The additional benefit of investment in fully digital CO switching equipment has been that the proportion of Indiana LEC access lines served by "equal access" COs increased to 99.32 percent in 1997 (under "equal access" end-users are able to reach the networks of their preferred IXC's with simplified dialing such as "1+").

### **Conclusion**

Over the last two years, the Commission has taken steps to implement the TA-96 and encourage the growth of local exchange competition in Indiana by certifying numerous ALECs, conducting arbitrations, approving interconnection agreements and investigating rate compliance, universal service, access charges and number portability. The IURC continues to devote much time and many resources to further the pro-competitive goals of the TA-96. However, with the experience being gained implementing the TA-96, the Commission is seeing trends emerge in the areas of complaints - interconnection and service quality related - that highlight the Commission's lack of adequate enforcement authority. In order for the Commission to deter anti-competitive behavior and address violations of the TA-96, the Commission should have the ability to enforce its orders through fines, cease and desist orders, orders mandating corrective action, or revocation or modification of the terms of a utility's certificate of territorial authority.

### 3. LOCAL EXCHANGE COMPETITION

---

On February 8, 1996, President Clinton signed into law the Telecommunications Act of 1996 (TA-96 or Act). The Act is a landmark piece of legislation designed to establish a national policy framework to implement fundamental change in the structure and dynamics of the telecommunications industry. The Act removes various restrictions contained in the Modified Final Judgement, a 1984 consent decree between AT&T Communications, Inc. (AT&T) and the U.S. Department of Justice that "broke up" AT&T into Regional Bell Operating Companies (RBOCs). For telecommunications service providers, the core of the TA-96 is a *quid pro quo*: the RBOCs will be allowed to compete in the long distance and manufacturing business, and in return, must open their markets to local competition.

The TA-96 affects nearly all areas of intrastate telecommunications services either directly through actions required of the states or indirectly through rulemakings required of the Federal Communications Commission (FCC). State commissions are charged with performing specific regulatory duties under the TA-96 that are meant to initiate pro-competitive policies at the local exchange level. State commissions must also undertake new administrative responsibilities that include advancing the goals of universal service and establishing policies for access to advanced telecommunications services by schools, libraries and health care providers.

Since last year's report, the Commission has continued to conduct arbitrations; approve arbitrated and voluntarily negotiated interconnection agreements; investigate the universal service mandates of the TA-96; establish guidelines for the implementation of Local Number Portability; and determine rates for the provision of interconnection. The following progress has been made in the local telephone exchange competition investigation and implementation of the TA-96:

- the Commission reviewed for compliance and approved 55 voluntarily negotiated interconnection agreements and amendments to allow entry into local telephone service
- on July 9, 1997, the Commission adopted the discount matrix appearing in paragraph 520 of FCC Order No. 97-157 for purposes of the federal schools and libraries program under the TA-96
- on October 15, 1997, the Commission further clarified certain conditions necessary to allow the resale of local exchange services by alternative local exchange carriers (ALECs) and ordered the incumbent local exchange carriers (ILECs) to file wholesale service tariffs
- on November 5, 1997, the Commission established the framework for two programs designed for qualifying low-income customers—Lifeline and Link-Up
- in December 1997, the Commission opened a proceeding to investigate number portability implementation, including all operational considerations, as well as cost recovery issues

**INTERCONNECTION AGREEMENTS**

The TA-96 requires ILECs to interconnect their respective telephone networks with the networks and facilities of potential local competitors; unbundle their local networks into smaller components; and make their retail services available to competitors for resale. ILECs have an affirmative duty to negotiate the terms, conditions, rates and charges of interconnection with potential competitors.<sup>4</sup> In cases where the parties are unable to reach agreement on issues involving interconnection, Congress provided state commissions the means to resolve the disputes through either mediation or arbitration. Once agreements have been reached, either through voluntary negotiation or arbitration, those agreements must be filed with the appropriate state commission for approval.<sup>5</sup> The TA-96 sets forth certain procedural requirements for negotiations and arbitrations and provides standards for review and approval or rejection of the agreements.

The Commission contracted with an outside arbitration facilitator, Ms. Mary Hinrichs, to arbitrate unresolved issues with the assistance of members of the Commission's technical staff for cases filed before January 1997. For cases filed after January 1997, the Commission's administrative law judges resolved arbitrations similar to other docketed cases.

As of June 30, 1998, the Commission had received 34 requests for arbitration under the TA-96 (27 involved Ameritech Indiana; 6 involved GTE; and 1 involved CBT).<sup>6</sup> The Commission approved three of Ameritech Indiana's arbitration agreements, those with TCG Indianapolis (TCG), AT&T and Sprint. Twenty-three of Ameritech Indiana's 27 arbitrations were dismissed. These involved 21 small LECs, Intermedia and LCI International Telecom. The Interconnection Agreement with MCI Telecommunications Corp. (MCI) is currently under review.

The Commission approved one of GTE's arbitration agreements, that with US Xchange, L.L.C. (US Xchange). GTE's interconnection agreements with AT&T, MCI, KMC Telecom, Inc. and Sprint currently are on hold, due in part to the lack of a single, jointly agreed-upon contract executed and signed

---

<sup>4</sup> Congress established pricing standards for the prices which the competitor must pay the ILEC and, in limited circumstances, for the prices which the ILEC must pay the competitor. Most of these pricing standards are contained in Section 252(d) of the Act.

<sup>5</sup> These agreements may be relatively simple and resolve a small number of issues, or even a single issue; alternatively, they may resolve over one hundred issues and cover several hundred pages.

<sup>6</sup> As of December 1996, CB served only 4,077 access lines in two exchanges in certain Indiana suburbs of Cincinnati, Ohio. The Indiana Commission has historically adopted or concurred in the regulatory policies and procedures of the Ohio Public Utilities Commission (PUCO) regarding CB, as that Commission exercised jurisdiction over the majority of the Company's regulated telephone services, rates and charges. Accordingly, the Indiana Commission has deferred action in this arbitration proceeding, pending resolution by the PUCO of the unresolved issues between ICG Telecommunications (ICG) and CBT.

by both parties. In the remaining arbitration, ICG and GTE filed a stipulated agreement that is contingent upon completion and approval of the AT&T/GTE interconnection agreement.

The CBT arbitration is pending until the Ohio Public Utilities Commission issues an order on certain issues, per agreement of the parties.

In addition to the arbitrated agreements, the Commission received 37 voluntarily negotiated agreements between Ameritech Indiana and potential local competitors; 15 between GTE and potential local competitors; 5 between United Telephone (Sprint-United) and potential local competitors; and 2 between CBT and potential competitors. The Commission has approved 35 Ameritech Indiana, 14 GTE, 4 Sprint-United and 1 CBT voluntarily negotiated agreements. The Commission also approved amendments to negotiated agreements between Ameritech Indiana and AT&T and 360 Corporation and Sprint-United. Ameritech Indiana's voluntarily negotiated agreements are with competitive LECs such as Time Warner Communications of Indiana, L.P.; MFS Intelenet of Indiana, Inc. (now a part of World Com Corp.); US Xchange; and various cellular and wireless providers. GTE's agreements are with Local Line Inc., Dakota Services Limited, and various cellular and wireless providers. Sprint-United's agreements are with various cellular and wireless providers.

The Commission met all of the relevant statutory deadlines set forth in the TA-96 regarding negotiated and arbitrated agreements and, in many cases, issued its orders in advance of the required date (see Appendix 3-A for a complete listing of all requests for interconnection agreements filed with the Commission as of June 30, 1998.)

On January 5, 1998, Time-Warner filed a complaint against Ameritech Indiana claiming that Ameritech Indiana refused to pay Time-Warner reciprocal compensation for internet traffic and that such refusal was a violation of the terms of its interconnection agreement. Ameritech Indiana claims internet traffic is toll traffic and therefore is not subject to reciprocal compensation. The Commission is examining the issue in Cause No. 41097.

#### **Cost Investigation for Interconnection and Unbundled Network Elements**

Section 252(d)(1) of the TA-96 requires state commission to determine "just and reasonable" rates for interconnection and UNEs "based on the cost determined without reference to a rate-of-return or other rate-based proceeding." That section also requires that such rates must be nondiscriminatory and may include a reasonable profit. Similarly, Section 252(d)(2) requires state commissions to set just and reasonable charges for transport and termination of traffic to provide for the recovery of costs associated with the transport and termination of calls on a carrier's network that originate on the network facilities

of another carrier. Finally, Section 251(c)(6) prescribes that rates for collocation must be just, reasonable and nondiscriminatory.

In regulations that were invalidated in the 1997 Iowa Utilities Board decision, the FCC had determined that the appropriate cost on which prices should be based was the forward-looking economic cost of providing each element, which is the sum of the total element long-run incremental cost (TELRIC), the non-volume sensitive costs, and a reasonable allocation of forward-looking joint and common costs.<sup>7</sup> Incremental costs are the additional costs a firm will incur as a result of expanding the output of a good or service by producing an additional quantity of the good or service. The term long-run means a period of time long enough such that all of a firm's costs are variable or avoidable. The FCC's pricing methodology for unbundled elements is based on the most efficient technology deployed in the incumbent LEC's existing wire center locations.

According to the FCC, use of a forward-looking cost methodology (TELRIC) attempts to simulate the conditions in a competitive marketplace, allowing the new entrant to produce its product efficiently and to compete effectively, thereby driving retail prices to competitive levels. Consistent with Section 252(d)(1) of the TA-96, the FCC rejected the argument that unbundled elements should be priced on an embedded cost basis, stating that basing the prices for unbundled elements on embedded costs would not promote competition.

The compressed schedules established by the TA-96 for arbitration of interconnection agreements did not allow the Commission sufficient time to evaluate Ameritech Indiana's or GTE's cost studies and establish permanent rates. Thus, the Commission set interim rates subject to true-up pending further investigation.

The Commission's investigation of GTE and Ameritech Indiana's cost studies considered a number of issues including, but not limited to, general costing methodology, cost of capital, fill factors (amount of capacity in the network), depreciation, switching costs, transport and signaling, allocation of shared and common costs, non-recurring charges and recovery of stranded costs. Although the 1997 Iowa Utilities Board decision invalidated the FCC rules, nothing in the decision prevented a state from adopting the TELRIC methodology. In fact, GTE and Ameritech Indiana purported to do cost studies based partly on the TELRIC methodology. Thus, in both cases the Commission referenced the FCC's TELRIC methodology to determine rates for unbundled network elements, interconnection and collocation.

On May 7, 1998 in Cause No. 40618, the Commission rejected major portions of GTE's proposed cost study because it did not follow the guidelines of the TA-96 and ordered GTE to submit a new cost

---

<sup>7</sup> Iowa Utils. Bd. v. FCC, 120 F. 3d 753 (8th Cir. 1997), cert. granted.

study in 60 days. On May 27, 1998, GTE filed a Petition for Reconsideration, Rehearing and a Stay, and Request for Clarification of the Commission's order. On June 30, 1998, the Commission issued its decision in Ameritech Indiana's cost case in Cause No. 40611. Similar to GTE's case, the Commission rejected much of Ameritech Indiana's cost study. In both cases the Commission set interim rates for most of the ordering provisions until a full investigation of the companies operational support systems is completed.

### **Federal Court Appeals**

The principal goal of the TA-96 is the introduction of competition into the telecommunications industry, particularly into local telephone service. To accomplish this goal as expeditiously as possible, the TA-96 mandates an ambitious schedule for the FCC and state commissions. However, the short time frames do not allow adequate time to effectively deal with complex costing issues. In addition, orders from the FCC and state commissions have been appealed in federal court. This is understandable because of the large financial gains or losses that are at stake; however, these appeals delay the process of bringing competition to the telecommunications industry. These impediments to progress are some of the reasons that the much-anticipated benefits of competition are not yet available.

### **Appeal of FCC's First Report and Order to 8th Circuit Court of Appeals**

The TA-96 requires the FCC to promulgate rules and regulations that implement the interconnection and pricing provisions of the TA-96. In response to those mandates, on August 8, 1996, the FCC issued its First Report and Order (the first part of its TA-96 trilogy of interconnection, universal service and access charge reform), which contained provisions designed to implement local competition, including certain pricing rules. Under the FCC's pricing rules, state commissions were preempted from using costing methodologies other than those authorized by the FCC. If a state commission was unable or unwilling to complete a cost review in compliance with the new rules, the FCC established proxy rates that state commissions were required to adopt.

Several parties (primarily ILECs and state utility commissions) appealed the First Report and Order, arguing that the FCC exceeded its authority in promulgating pricing rules. On September 11, 1996, the Judicial Panel on Multidistrict Litigation consolidated all of the appeals in the 8th Circuit Court of Appeals in St. Louis, Missouri. Although many of the petitioners objected to the FCC's regulations entirely, most petitioners challenged only the pricing rules established in the First Report and Order.<sup>8</sup> Specifically, the petitioners appealed the FCC's mandate that state utility commissions employ the TELRIC

---

<sup>8</sup> Iowa Utils. Bd., et al v. FCC, 109 F. 3d 418, 422 (8th Cir. 1996)



method to calculate the costs an ILEC incurs in making its facilities available to competitors.<sup>9</sup> The petitioners also objected to the FCC's proxy rates that are to be used by state utility commissions which elect not to use the TELRIC method.<sup>10</sup>

In addition, the petitioners challenged the FCC's "pick and choose" rule, which the petitioners argued would allow carriers seeking market entry to pick and choose the lowest-priced individual elements and services they need from among all of the previously approved agreements between that LEC and other carriers.<sup>11</sup> This practice, the petitioners argued, would undermine the congressional preference for negotiated agreements because an agreement would never be fully binding since any carrier could demand that its agreement be modified to reflect the lower cost negotiated in a separate agreement between the LEC and another carrier.<sup>12</sup>

Based on the foregoing arguments, the petitioners asked the court to stay the FCC's First Report and Order. On September 27, 1996, the court granted a temporary stay of the pricing provisions and the "pick and choose" rule contained in the FCC's Order. The court stated: "In this, our first look at the issue, we are skeptical that the FCC's roundabout construction of the statute could override what, at first blush, appears to be a rather clear and direct indication in subsections 252(c)(2) and 252(d) that the state commissions should establish prices."<sup>13</sup>

On October 15, 1996, the 8th Circuit Court of Appeals stayed the application of certain portions of the FCC Order, including the pricing provisions adopting the TELRIC methodology. The Supreme Court of the United States refused to lift the stay.<sup>14</sup>

On July 19, 1997, the 8th Circuit Court issued a lengthy opinion. Among the important decisions, the Court ruled:<sup>15</sup>

1. The TA-96 grants state commissions, not the FCC, the authority to determine the rates involved in the implementation of the local competition provisions in the TA-96.

---

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid., p. 423.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid., p. 424.

<sup>14</sup> 117 S. Ct. 429 (1996).

<sup>15</sup> Iowa Utils. Bd. v. FCC, 120 F. 3d 753 (8th Cir. 1997), cert. granted.

2. Contrary to the FCC's interpretation, the TA-96 does not allow requesting carriers to "pick and choose" among individual provisions of other interconnection agreements that have previously been negotiated between an ILEC and other requesting carriers without being required to accept the terms and conditions of the agreements in their entirety.
3. State commissions have the exclusive authority to make determinations for rural LECs seeking exemptions, modifications or suspensions under the TA-96 and the FCC exceeded its authority in establishing a requirement that these LECs show an "undue economic burden beyond the economic burden typically associated with efficient competitive entry" to receive protection from the TA-96.
4. The FCC exceeded its authority in claiming authority to review interconnection agreements approved by state commissions under the TA-96, and to enforce the terms of such agreements.
5. The state commissions, and not the FCC, have the authority to determine which interconnection agreements may be submitted for state approval.
6. State rules on access and interconnection are not preempted so long as they are consistent with the requirements of Section 251 of the TA-96 and do not substantially prevent the implementation of Section 251.
7. The FCC violated the terms of the TA-96 when it required ILECs to provide interconnection, unbundled network elements, and access to such elements at levels of quality that are superior to those levels at which the ILECs provide these services to themselves, if requested to do so by competing carriers.

On October 14, 1997, in response to a petition for rehearing, the 8th Circuit Court issued orders holding: 1) the TA-96 does not provide a basis to order ILECs to provide competitive local exchange carriers (CLECs) with any combination of network elements and 2) if a CLEC wants combined network elements, the CLEC must combine the elements itself.<sup>16</sup>

#### **Appeal of Arbitrated Interconnection Orders in Federal Court**

Twenty-six of the Commission's arbitration proceedings were appealed to the United States District Court for the Southern District of Indiana pursuant to Section 252(e)(6) of the TA-96. GTE appealed arbitration decisions involving its interconnection agreements with AT&T, MCI and Sprint. In each appeal, GTE challenges nine aspects of the Commission's orders including, but not limited to: 1) the

---

<sup>16</sup> Iowa Utilities Board, et al v. Federal Communications Commission, et al, 120 F.3d 753, 815 (8th Cir. 1997).

Commission's failure to set prices based on GTE's own rates and costs; 2) the Commission's application of FCC pricing rules and proxies; and 3) the Commission's imposition of an unrelated interconnection agreement between AT&T and Ameritech Indiana. In all three of GTE's appeals the Court granted the State's Motion to Dismiss on the grounds that the action is not ripe for judicial review since GTE failed to submit a final executed interconnection agreement. The dismissal is without prejudice, which means that the parties can re-open the appeal after a final interconnection agreement is filed.

Ameritech Indiana is appealing Commission orders that approved interconnection agreements with AT&T and Sprint. In the AT&T appeal, Ameritech Indiana argues primarily that it will receive inadequate compensation for certain services and that the Commission erred in adopting AT&T's anti-publicity clause. In the Sprint appeal, Ameritech Indiana contests the requirement that it make available to Sprint certain promotional offerings at the same rate Ameritech Indiana charges its own customers.

Ameritech Indiana also appealed the arbitration decisions involving 21 small LECs in Indiana. In Ameritech Indiana's complaint, it claims that Extended Area Service (EAS) agreements should be converted into interconnection agreements and therefore subject to reciprocal compensation. Attached as Appendix 3-B is a summary that reflects the status of each case as of June 18, 1998.

#### **LOCAL EXCHANGE CTAs AND TARIFFS**

Companies that intend to compete against incumbent providers in the local exchange market must request and be granted a Certificate of Territorial Authority (CTA) from the Commission. Since enactment of the TA-96, a total of 72 alternate local exchange carriers (ALECs) have petitioned for a total of 96 CTAs; some ALECs seek bundled resale authority; some seek facilities-based authority; and a few seek both authorities.

As of June 30, 1998, the Commission has issued a total of 60 bundled resale CTAs and 19 facilities-based CTAs; 13 CTA requests are pending; and 4 CTA requests were withdrawn. Refer to Appendix 3-C for a summary report on the status of local service CTA applications filed by each company.

As with incumbent local providers, all new entrants must have tariffs on file with the Commission that detail rates, terms and conditions associated with the services that they provide. However, many of the certificated new entrants did not submit proposed tariffs with their CTA requests, because interim wholesale tariffs for Ameritech Indiana and GTE were under review in separate proceedings and had not

yet been approved. Until these interim wholesale tariffs were approved, new entrant resellers did not know the underlying costs to provide bundled services and could not develop their own proposed tariffs.<sup>17</sup>

Now that Ameritech Indiana and GTE's wholesale tariffs are in effect, new entrants are filing their proposed tariffs for Commission review and approval. In an effort to process the surplus of proposed tariffs, and to allow new entrants to render service, the IURC is focusing its administrative efforts on those companies that indicate a strong desire to provide service in Indiana immediately rather than sometime in the future.

### **MARKET PERFORMANCE DATA AND ANALYSIS**

In order to determine the degree of actual local exchange competition that may exist in Indiana, the Commission Staff examined several factors to determine if the ALECs' market share has grown since the passage of the TA-96. The factors include:

- the number of ALECs certified to provide service in Indiana;
- the number of ALECs with approved intrastate tariffs, currently in effect;
- the intrastate revenues from local exchange service, as well as access charges, received by ILECs and ALECs;
- the number of access lines sold to ALECs for resale and/or as unbundled network elements;
- the number of local loops installed by facilities-based ALECs.

### **CTAs:**

To date, the Commission has issued a total of 79 CTAs to carriers (ALECs) to provide local exchange telecommunications services in competition with incumbent local exchange carriers. Twenty-one of these CTAs were for the provision of local exchange services through the ALEC's own facilities, whereas the remainder of the CTAs were granted for the provision of bundled local exchange services purchased for resale from ILECs.

Many of these ALECs have reached interconnection agreements with an incumbent local exchange carrier under Sections 251 and 252 of the TA-96; these interconnection agreements can provide the ALEC with alternatives to constructing certain telecommunications facilities through access to unbundled network elements provided by the ILEC, interconnection with the ILEC, collocation in certain ILEC facilities, reciprocal compensation for transport and termination of traffic on the ILEC's network, and/or the

---

<sup>17</sup> Currently, the Commission is investigating permanent wholesale discounts and tariffs for both Ameritech Indiana and GTE in Cause Nos. 41055 and 41117, respectively.

purchase of "bundled" ("retail") telecommunications services at wholesale rates, for resale to the ALEC's customers.<sup>18</sup> As of June 30, 1998, the Commission has approved 55 voluntarily negotiated interconnection agreements and amendments, many of which have been for reciprocal compensation between ILECs and the providers of cellular/mobile telecommunications services.

It is important to note that the agreements between ILECs and ALECs only create opportunities for actual local competition to emerge; they do not guarantee that it will occur. To illustrate, the agreements that the Commission has approved typically contain an implementation schedule, which may call for the ALEC to begin providing service several months, or even a year or more, after the agreement is approved. While the number and scope of these agreements are very important factors which the Commission must consider in assessing the level of local exchange competition that may exist in Indiana, they are by no means the only factors. ILECs are required to negotiate interconnection with ALECs upon request.<sup>19</sup> Prior to providing service, however, an ALEC is required to obtain a CTA from the Commission and have an approved tariff on file with the Commission. Finally, even with a CTA, and an approved tariff currently in effect (and even with an agreement(s)), there is still no guarantee that the ALEC will have any local exchange customers or any local exchange revenues.

#### Tariffs:

Of the carriers that have reached agreements with an ILEC, 11 have an approved "retail" tariff with the Commission, which is required before the ALEC can provide service to customers in Indiana. None of the 11 ALECs that were certified as facilities-based carriers and also had agreements and approved tariffs provided any local exchange service through their own facilities in Indiana during 1997.

#### Intrastate Revenues:

Table 1 shows the distribution of revenues earned from the provision of intrastate local exchange and access services between ILECs and ALECs. The Commission's revenue analysis (based upon IURC fee billing data) focused on 3 specific accounts in the FCC's Uniform System of Accounts (USOA): 5001 (Basic Area [Local] Revenue [including non-optional EAS]; 5002 (Optional Extended Area Revenue); and 5084 (State Access Revenue). Less than one-half of one percent (specifically, 0.30 percent) of the total

---

<sup>18</sup> It should be noted that ALECs have an alternative to negotiating a wholesale agreement with Ameritech Indiana or GTE; they can purchase most of these carriers' retail services out of the two ILEC's respective interim wholesale tariffs. Currently, the Commission is investigating permanent wholesale discounts and tariffs for both Ameritech Indiana and GTE in Cause Nos. 41055 and 41117, respectively.

<sup>19</sup> As discussed elsewhere, Section 251(f) contains certain exemptions for rural ILECs and also allows them to receive a suspension or modification of their requirements under 251(c), including their unbundling and collocation obligations, and some of their interconnection obligations.

1997 revenues from both local exchange service and intrastate access service were received by ALECs; ILECs earned 99.70 percent of such revenues in 1997. Indeed, a majority of ALECs (43, both facilities-based and resale) of the 48 ALECs certified prior to January 1, 1998, reported no intrastate revenues from local exchange service or intrastate access service for 1997. In 1997, four ALECs reported revenues solely from local exchange service and one ALEC reported intrastate revenues from both basic local exchange and intrastate access, and their respective local revenues came through resale, rather than from services provided over their own facilities.

TABLE 1

Type of Local Exchange Carrier	No. Certified Providers As of 12/31/97	Total 1997 Indiana Local Service Revenue (USOA Accts. 5001 & 5002)	Percent of Total	1997 Intrastate Access Revenue (USOA Acct. 5084)	Percent of Total	Grand Total 1997 Local Service & Access Revenue (USOA Accts. 5001, 5002 & 5084)	Percent of Grand Total
ALEC	48	\$ 2,678,815	0.4%	\$ 204,842	0.09%	\$ 2,883,657	0.30%
ILEC	42	\$728,847,029	99.6%	\$224,131,074	99.9%	\$952,978,103	99.70%
TOTAL	90	\$731,525,844	100.0%	\$224,335,916	100.0%	\$955,861,760	100.00 %

#### Access Lines: (Unbundled Network Elements)

An alternative means of measuring actual local competition is to identify the number of access lines that ALECs are serving. As of December 31, 1997, only Indiana's two largest ILECs - Ameritech Indiana and GTE - were required to provide ALECs with access to the local exchange market, either through resale of local exchange service at wholesale rates or the sale of unbundled network elements.<sup>20</sup> Based upon data provided to the FCC by the three largest ILECs in the state (Ameritech Indiana, GTE, and Sprint-United) in response to the FCC's recent voluntary Local Competition Survey<sup>21</sup>, out of 3,343,995 switched voice grade access lines in place in Indiana as of December 31, 1997, these three companies together sold zero "local service lines sold to unaffiliated carriers as UNEs loops where the reporting

<sup>20</sup> Under § 251(f)(1), Sprint-United is exempt from these requirements "until (i) [it] has received a bona fide request for interconnection, services, or network elements, and (ii) the [IURC] determines . . . that such request is not unduly economically burdensome, is technically feasible, and is consistent with section 254, (other than subsections (b)(7) and (c)(1)(D) thereof." Sprint-United has reached several agreements with cellular or wireless companies under Sections 251 and 252 of the Act; however, the Commission is unaware of any bona fide requests from a wireline ALEC to Sprint-United in Indiana.

<sup>21</sup> The public, redacted (where applicable) versions of responses were posted to the Internet at [http://www.fcc.gov/ccb/local\\_competition/survey/responses](http://www.fcc.gov/ccb/local_competition/survey/responses) on March 27, 1998; see, also, the revised responses for Ameritech and GTE (posted June 22, 1998).

carrier [*i.e.*, Ameritech, GTE, or Sprint-United] provides switching bundled with line,”<sup>22</sup> Ameritech Indiana reported five “service lines sold to unaffiliated carriers as UNEs loops where reporting carrier does not provide bundled switching,”<sup>23</sup> [emphasis added]; GTE and Sprint-United both reported zero.<sup>24</sup>

As of December 31, 1997, for the state of Indiana, Ameritech Indiana reported 159 “local service lines sold to competing local carriers for resale, including Centrex lines” (24 “Residential customer lines” and 135 “Other customer lines”).<sup>25</sup> Neither GTE nor Sprint-United reported any resold local service lines for 1997. This constitutes less than .01 percent of all access lines owned by Indiana’s three largest local exchange carriers (Ameritech Indiana: 2,166,548; GTE: 922,142; Sprint-United: 234,220). The number of resold local service lines reported by Ameritech for all of the states in the Ameritech Region are shown in Table 2. GTE reported a total of 287 resold lines for Kentucky and 3 resold lines for Wisconsin (residential/business breakdown not available).

TABLE 2

RESOLD LINES IN THE AMERITECH REGION -12/31/97						
	Indiana	Illinois	Michigan	Ohio	Wisconsin	Regional
<b>Business</b>	135	100,515	32,807	67,087	19,122	219,666
<b>Residential</b>	24	110,651	154,660	746	3,427	269,508
<b>Total</b>	159	211,166	187,467	67,833	22,549	498,174

<sup>22</sup> FCC Voluntary Local Competition Survey: Page 1, Line 2; Responses of Ameritech, GTE, and Sprint-United.

<sup>23</sup> FCC Voluntary Local Competition Survey: Page 1, Line 7; Responses of Ameritech, GTE, and Sprint-United. In its revised response, Ameritech reported selling five unbundled loops (with switching) to unaffiliated competing local carriers. However, the Company also reported that zero (0) unaffiliated local carriers actually purchased any unbundled loops without switching; this inconsistency has not been clarified.

<sup>24</sup> FCC Voluntary Local Competition Survey: Section B, Line 7; Response of Sprint-United; Revised responses of Ameritech and GTE. However, Ameritech also reported that zero unaffiliated local carriers actually purchased any unbundled loops without switching; this inconsistency has not been clarified.

<sup>25</sup> The FCC Voluntary Local Competition Survey refers to the resale of lines, rather than services. This report adopts the FCC's nomenclature for consistency's sake; the differences in terminology do not affect the Commission's analysis.

Access Lines: (ALEC Provided)

An ALEC's investment in its own infrastructure (e.g., loops) is another important factor for the Commission to consider in evaluating the extent of any local exchange competition in Indiana. However, such investment by an ALEC(s) does not, in and of itself, guarantee that the ALEC will be in a position to provide local exchange service, have any local customers, or receive any local exchange revenues immediately. For example, TCG reported that it had 3,460 business access lines and 1,238 special access lines in place as of December 31, 1997; however, TCG did not earn any local exchange revenue in 1997.

On June 10, 1998, TCG, announced that "Teleport Communications Group has been selected by the General Service Administration (GSA) [the primary property management arm of the federal government] to handle all local incoming and outgoing telephone calls for the Emmett J. Bean Federal Center located at the former Fort Benjamin Harrison military installation . . . TCG [Indianapolis] replaces Ameritech as the local telephone company serving the center." The TCG news release further quoted Allen Sims, Vice President & Managing Executive for TCG: "This installation is the largest to date for TCG's operation and included new telephone service for over 5,000 civilian and military personnel working in the building."

*The Indianapolis Star*, which covered this story in its June 13 edition, observed that, "With the announcement of a single deal, Ameritech Indiana appears to have lost more business than it has since the Telecommunications Act of 1996 went into effect more than two years ago." However, there was no indication in either the news release or the *Star* account when TCG will begin providing the service or even if providing service to 5,000 employees equates to providing 5,000 access lines. Assuming that this project does equate to the provision of 5,000 access lines, 5,000 access lines would represent substantially less than one percent (specifically, 0.24 percent) of Ameritech Indiana's 2,166,548 switched voice grade access lines in Indiana as of December 31, 1997.<sup>26</sup>

LOCAL EXCHANGE COMPETITION: STATUS AND STRATEGIES

Over two years have passed since the passage of the TA-96, and the data indicate that local competition in Indiana is virtually non-existent. The following are among the reasons that have been advanced in the telecommunications trade press and elsewhere by representatives of various industry and consumer interests for the slow introduction of local exchange competition in Indiana, nationwide, or both.

- Local residential rates are too low, creating a disincentive for competitors to enter the market.

---

<sup>26</sup> FCC Voluntary Local Competition Survey: Section A, Line 3; Revised response of Ameritech for the State of Indiana.



- Wholesale discounts may not be great enough.
- Population is too small to attract new local providers.

#### Residential v. Business Rates:

A frequent criticism heard is that residential rates are too low and business rates are too high. Critics argue that potential new entrants cannot compete against the ILECs in the local residential marketplace because the ILECs' rates are "below cost." The Commission is currently considering the proper price levels for local exchange service, as well as the relationships between prices and costs, in Cause No. 40785. A fundamental part of determining the proper pricing for residence and business services is the determination of the appropriate underlying costs the ILEC incurs in providing these services, and this, of course, is highly contentious.

There is also an acknowledgment that costing, pricing and rate compliance with the TA-96 are part of a "bigger universal service picture." The Commission's investigation into costs, pricing, rate compliance, access charge reform, universal service, etc. is scheduled to continue through January 1999. However, without prejudging the outcome of the Commission's deliberations, several observations can be made. First, if "high" rates (however "high" is defined) were an incentive for competitors to enter the market, one might expect to see a significant level of competition for local business customers. But, as discussed previously, the data indicated that this is not the case. Second, to the extent that regulatory treatment of local services and rates should be based on the level of competition, the lack of actual local service competition suggests that less, rather than more, pricing flexibility for ILEC local residence and business rates would be in order. Although it is true that there is more actual competition in the business local exchange market than the residential local exchange market - 24 resold residential lines vs. 135 resold business lines for 1997 - this constitutes less than .01 percent of all access lines owned by Indiana's three largest local exchange carriers (Ameritech Indiana: 2,166,548; GTE: 922,142; Sprint-United: 234,220).

#### Wholesale Discounts:

The Commission is also informally aware of complaints that local wholesale discounts are too small. The current interim wholesale discounts determined by the Commission for Ameritech Indiana and GTE are 21% and 17%, respectively. Since the Commission is currently investigating permanent wholesale discounts for both ILECs, the validity of such criticisms may not be discussed here; however, it is important to note that the level of local wholesale discounts that the Commission may set is constrained by the requirements set forth at 251(c)(4) and 252(d)(3) of the TA-96. Whether or not the wholesale discount (determined in compliance with the TA-96) produces sufficient margin, when applied

to the ILEC's existing residence and business local exchange retail rates, to attract competitors to resale such services, is a function of the level of the retail rates and potential competitors' efficiencies.

Population:

The Commission is also aware that the population of Indiana cities and towns may be smaller and/or less dense than the population of cities and towns in some other nearby states, especially for Ameritech Indiana. It is possible that this disparity may decrease the attractiveness of Indiana markets to competitors; however, it is difficult to determine what role, if any, population plays in potential local competitors' business decisions, and no attempt has been made to quantify such role.

Strategies:

What has been done and what further steps should be taken to increase the level of competition in Indiana? Over the last two years, the Commission has taken steps to implement the TA-96 and encourage the growth of local exchange competition in Indiana by certifying numerous ALECs, conducting arbitrations, approving interconnection agreements, investigating rate compliance, universal service, access charges and number portability. The IURC continues to devote much time and many resources to further the pro-competitive goals of the TA-96. However, with the experience being gained implementing the TA-96, the Commission is seeing trends emerge in the areas of complaints - both ILEC/ALEC interconnection and service quality related - that highlight the Commission's lack of adequate enforcement authority. Although the Federal District Court held that state commissions are charged with enforcing interconnection agreements, an apparent expansion of state enforcement authority, the state's enabling statute must support this expansion.<sup>27</sup> The legislature can aid the Commission in this area by a combination of clarification of existing statutes and/or development of new legislative enforcement authorities for the Commission. In order for the Commission to be able to expedite review of complaints, deter anti-competitive behavior, and address allegations of certain types of violations of the TA-96, the Commission should have the ability to enforce its orders through fines, cease and desist orders, orders mandating corrective action, or revocation or modification of the terms of a utility's certificate of territorial authority. Specific legislation should be considered during the 1999 legislative session.

**RURAL LEC PETITIONS UNDER THE TA-96**

The Act allows smaller ILECs greater flexibility in meeting the requirements of access and interconnection. Incumbent rural telephone companies are automatically exempt from the access and

---

<sup>27</sup>On July 18, 1997, the 8th Circuit Court held that "[We conclude] that state commissions are vested with the power to enforce the terms of agreement they approve." (i.e., the FCC has no authority to review/enforce State arbitrated decisions under § 208.)

interconnection obligations of the TA-96. In Indiana, 36 of the 38 ILECs (all ILECs except for Ameritech Indiana and GTE) meet the definition of rural telephone company contained in Section 251(f) of the TA-96.<sup>28</sup>

Under Section 251(f) of the TA-96, rural telephone companies may wait to receive a bona fide request for interconnection or decide to petition the state commission for a suspension and/or modification of certain interconnection requirements. If a rural telephone company receives a bona fide request for interconnection, the state commission must conduct an inquiry to determine whether to terminate the interconnection exemption provided automatically under the TA-96. Within 120 days of receiving notice of the interconnection request, the state commission must decide if the interconnection request is not unduly economically burdensome, and is technically feasible and consistent with the Act's universal service provisions.<sup>29</sup> If the exemption is terminated, the state commission must establish an implementation schedule for compliance with the interconnection request.

To grant a petition for suspension and/or modification, the state commission must determine, within 180 days of the date of the petition, (A) that such suspension and/or modification is necessary: 1) to avoid a significant adverse economic impact on users of telecommunications services generally; 2) to avoid imposing a requirement that is unduly economically burdensome; or 3) to avoid imposing a requirement that is technically infeasible; and (B) that such request is consistent with the public interest, convenience and necessity.<sup>30</sup>

As of the date of this report, the Commission has received and acted upon the initial exemption petitions from 35 of Indiana's 36 rural telephone companies. In March 1997, the Commission granted 25 suspensions and/or modifications of certain interconnection requirements and denied 10: Clay County

---

<sup>28</sup> Rural Telephone Company. - The term "rural telephone company" means a local exchange carrier operating entity to the extent that such entity -

(A) provides common carrier service to any local exchange carrier study area that does not include either (i) any incorporated place of 10,000 inhabitants or more, or any part thereof, based on the most recently available population statistics of the Bureau of the Census; or (ii) any territory, incorporated or unincorporated, included in an urbanized area, as defined by the Bureau of the Census as of August 10, 1993;

(B) provides telephone exchange service, including exchange access, to fewer than 50,000 access lines;

(C) provides telephone exchange service to any local exchange carrier study area with fewer than 100,000 access lines; or

(D) has less than 15 percent of its access lines in communities of more than 50,000 on the date of enactment of the Telecommunications Act of 1996.

<sup>29</sup> Telecommunications Act of 1996, Section 251(f)(B).

<sup>30</sup> Ibid., Section 251(f)(2).

Rural Telephone Cooperative, Inc.; Daviess-Martin County Rural Telephone Corporation; Hancock Rural Telephone Corporation; Mulberry Cooperative Telephone Company; New Paris Telephone Company; Perry-Spencer Rural Telephone Cooperative; Pulaski-White Rural Telephone Cooperative; S&W Telephone Company, Southeastern Indiana Rural Telephone Cooperative, and Washington County Rural Telephone Company.

On April 9, 1997, seven of the ten companies petitioned for reconsideration of the Commission's decision rejecting their suspension and/or modification requests.<sup>31</sup> On May 14, 1997, the seven companies<sup>32</sup> filed a Submission of Additional Authority and Basis for Reconsideration. The petitioners argued that, under new legislation (House Enrolled Act 1637, which amended I.C. 8-1-17-22.5 and would become effective on July 1, 1997) the Commission should review its basis for denying the relief requested. On August 13, 1997, the Commission issued an Order on Petition for Reconsideration in which it found that the amendment to I.C. 8-1-17-22.5 was compelling in this case and that the requested suspension and/or modification of certain interconnection requirements should be granted.

The Commission further noted that, in the interim between the March 20, 1997 Order and the August 13, 1997 Order on Reconsideration, the FCC had promulgated its rules on access reform, the last rulemaking of the federal Interconnection, Universal Service and Access Reform Trilogy under the TA-96. Because the suspension and/or modification of certain interconnection requirements were granted for a period not to exceed 12 months following the completion of the federal rulemakings, bona fide requests for interconnection would be entertained by the Commission beginning on May 16, 1998. As of the date of this report, no such bona fide requests have been filed.

#### **PAYPHONES/FCC PREEMPTION**

Section 276 of the Telecommunications Act of 1996 required the FCC, within nine months of enactment of the Act, to prescribe regulations designed to encourage competition among payphone providers and promote widespread deployment of payphones. To this end, the FCC issued a series of related implementation orders significantly changing the payphone marketplace.<sup>33</sup>

---

<sup>31</sup> See In re the Matter of the Request of [33 Rural Telephone Companies] for Suspension of Certain Interconnection Obligations pursuant to Sections 251(F)(2) of the Telecommunications Act of 1996, Docket No. 40626, March 20, 1997.

<sup>32</sup> Daviess-Martin County Rural Telephone Corporation; Hancock Rural Telephone Corporation; Mulberry Cooperative Telephone Company, Inc.; Perry-Spencer Rural Telephone Cooperative, Inc.; Pulaski-White Rural Telephone Cooperative, Inc.; S & W Telephone Company, Inc.; and Southeastern Indiana Rural Telephone Cooperative.

<sup>33</sup> See primarily Report and Order in CC Docket Nos. 96-128 and 91-35, dated September 20, 1996 ("Report and Order"); Order on Reconsideration in CC Docket Nos. 96-128 and 91-35, dated November 8, 1996 ("Order on Reconsideration"); Order in CC Docket No. 96-128, dated April 4, 1997 ("Clarification Order"); and Order in CC

The FCC's Report and Order noted that various regulatory, structural, economic and technological barriers stood in the way of a fully competitive marketplace.<sup>34</sup> Via its implementation orders, the FCC sought to remove these barriers in order to carry out Congress' mandate set forth in Section 276 of the TA-96. With these changes, the FCC is working to ensure that incumbent local exchange company payphone services are provided on an equivalent basis with those of Independent Payphone Providers (IPPs).

The FCC's orders concluded that all payphone service providers should be compensated for "each and every completed intrastate and interstate call" and established a mechanism for doing so. To be eligible for this compensation, beginning on April 15, 1997, ILECs were required, among other conditions, to terminate any revenues from non-payphone sources flowing to their payphone operations. ILECs were required to stop recovering payphone costs from their intrastate and interstate Carrier Common Line Charges (CCL).<sup>35</sup> The FCC's rulemakings also reclassified ILEC payphones as Customer Premises Equipment. In doing so, the FCC required ILECs to transfer this payphone Customer Premises Equipment to unregulated status on the ILECs' books of accounts. The FCC's orders also noted that ILECs historically have used various central office functions and features for themselves (e.g., coin line) but have not always provided such functionalities to IPPs. As a result, the FCC directed the ILECs to tariff certain access services and features for use by IPPs with such functionalities priced at cost.

It was necessary for ILECs to modify their intrastate payphone tariffs to comply with certain of the FCC's payphone directives. As a result, several Indiana ILECs filed revised tariffs for approval under the Commission's 30-day filing procedures.<sup>36</sup> However, prior to Commission action on these filings, the Indiana Payphone Association (IPA) filed a petition on April 15, 1997, docketed as Cause No. 40830. The IPA's petition sought a Commission investigation into the proposed ILEC payphone compliance tariffs and requested that the Commission hold the effectiveness of such tariffs in abeyance until such time as the Commission completed its investigation.

On October 15, 1997 in Cause No. 40830, the Commission issued a Preliminary Order denying IPA's request to hold the ILEC payphone tariffs in abeyance. Instead, the Order approved these tariffs on an interim basis, retroactive to April 15, 1997, and made the tariffs subject to refund.

---

Docket No. 96-128, dated April 15, 1997 ("Order Granting Limited Waiver") as related orders.

<sup>34</sup> Report and Order, ¶3 p 3.

<sup>35</sup> CCL charges are assessed by ILECs on other carriers (e.g. long distance companies) when such carriers originate and/or terminate their services over the ILECs' access lines.

<sup>36</sup> Pursuant to the Commission's June 30, 1994, Order in Cause No. 39705 (Opportunity Indiana plan), Indiana Bell Telephone Company, Inc., d/b/a Ameritech Indiana tariffs are processed differently than tariffs of other ILECs. Ameritech Indiana filed tariff sheets under this modified tariff process that it believes comply with the federal mandates. However, no specific Commission determination has been made.

Recognizing that the majority of ILEC payphones are provided by the three largest Indiana ILECs—Ameritech Indiana, GTE North, and Sprint-United—the Commission bifurcated its review of ILEC payphone tariffs. In phase one, which is currently underway, the Commission has established a review process for the three largest ILECs. In phase two, the Commission will review the payphone filings of all remaining ILECs.

In both phase one and phase two, each ILEC will have an opportunity to provide information about how it has complied with the FCC's payphone rulings. Any opposing party also will be given an opportunity to respond. Following input from all interested parties, Commission staff, acting on authority from the Commission, will determine the appropriate form of payphone tariff compliance filings including any amendments that might be required. Phase one is scheduled to conclude in the third quarter of 1998.

### **NUMBER PORTABILITY**

The FCC's Telephone Number Portability Orders<sup>37</sup> were designed to implement Section 251(b)(2)<sup>38</sup> of the Telecommunications Act of 1996. The purpose of the orders is to allow consumers to change their local exchange service provider and retain their telephone number without any loss of service quality.

In its orders, the FCC mandated that Long-term Telephone Number Portability (LTNP) be implemented in phases, beginning with exchanges located in the nation's largest 100 Metropolitan Statistical Areas (MSAs) between October 1, 1997, and December 31, 1998. In Indiana there are five MSAs that are scheduled for implementation of LTNP in 1998: the Indiana portion of Cincinnati, Ohio, by May 15; Indianapolis by June 30; Gary and the Indiana portion of Louisville, Kentucky, by September 30; and Fort Wayne by December 31. The smaller independent LECs in Indiana have six months after receipt of a bona fide request to provide LTNP unless they have applied for and received an exemption modifying their obligation pursuant to Section 251(f)(2)<sup>39</sup> of the TA-96.

---

<sup>37</sup> FCC 96-286, In the Matter of Telephone Number Portability, First Report and Order and Further Notice of Proposed Rule Making (First Report), released July 2, 1996, and FCC 97-74, First Memorandum Opinion and Order on Reconsideration, released March 11, 1997.

<sup>38</sup> Section 251 (b)(2) of the TA-96 specifies that a LEC has the duty "... to provide, to the extent technically feasible, number portability in accordance with the requirements prescribed by the Commission."

<sup>39</sup> Section 251(f)(2) of the TA-96 allows a local exchange carrier with fewer than 2 percent of the nation's subscriber lines installed in the aggregate nationwide to petition a state commission for a suspension or modification of the application of certain requirements imposed on local exchange carriers in the TA-96.

In its July 1, 1996, Order (Cause No. 39983), the Commission directed that a task force be formed to review and consider the technological issues related to LTNP and the associated cost of each technology.<sup>40</sup> The Commission further instructed the task force to review and consider the Stipulation and Settlement Agreement filed with the Illinois Commerce Commission (ICC) in the Illinois LTNP case.<sup>41</sup>

The Indiana task force filed a report describing its review and recommendations with the Commission on January 8, 1997. In the report the task force recommended that the Commission adopt the ICC Stipulation and Settlement agreement because it was the most logical and efficient solution to implementation of LTNP in Indiana. The ICC Stipulation and Settlement agreement recommends using a technology called Location Routing Number (LRN). LRN assigns a database-provided routing number that identifies where the call is terminated--ILEC or ALEC--to the called telephone number. The databases needed to support LRN, as mandated by the FCC, are provided by a neutral third party. The task force also estimated a combined one-time cost to the three largest ILECs and two ALECs of \$42.5 million<sup>42</sup> to implement LRN through December 1998. The Commission issued an order on June 25, 1997, accepting the task force's recommendations, and ordered the task force to meet on an as-needed basis.

At the request of the Indiana Telecommunications Association (ITA) and with the support of the Indiana task force, the Commission reopened the number portability investigation. Attached to the request was a task force status report that stated that the task force had been meeting and that an implementation subcommittee had been formed to address the implementation of LRN in Indiana. The subcommittee stated in its report that the ALECs had selected the central offices (COs) in each affected MSA in accordance with the FCC's Reconsideration Order 97-74.<sup>43</sup> The Reconsideration Order states that to reduce costs, an affected ILEC does not have to implement LRN in all of its offices within a MSA, only the offices that are chosen by an ALEC. The FCC also determined that if an ALEC selects a CO that was not

---

<sup>40</sup> Cause No. 39983, paragraph K, In the Matter of the Investigation on the Commission's Own Motion into Any and All Matters relating to Local Telephone Exchange Competition within the State of Indiana. Interim Order on Bundled Resale and Other Issues, approved July 1, 1996.

<sup>41</sup> The Commission specifically instructed task force participants "to review and consider the 'Stipulation and Settlement Agreement' that was attached to AT&T's June 14, 1996 filing" regarding a number portability task force. The Stipulation and Settlement Agreement was approved by the Illinois Commerce Commission (ICC) in Docket No. 96-0089, the ICC's long-term number portability case.

<sup>42</sup> As of June 1, 1998, besides Ameritech Indiana, GTE and Sprint-United, there are 16 certified facilities based ALECs, 16 IXC's, several cellular and PCS providers, and several independent smaller LECs with EAS that will have costs associated with LTNP.

<sup>43</sup> FCC 97-74, In the Matter of Telephone Number Portability, First Memorandum Opinion and Order on Reconsideration, released March 11, 1997, CC Docket No. 95-116.

selected previously (either within or outside the largest 100 MSAs), the ILEC has between 30 and 180 days to make the CO LRN capable depending on how the CO is equipped.

As part of the implementation planning, the subcommittee identified the types of testing that needed to be completed as well as a time-line for testing. The subcommittee determined that a full array of trials was not necessary because the technical aspects of LRN had been tested successfully in Illinois during a FCC-ordered trial. The subcommittee decided to conduct limited testing between carriers. The subcommittee also decided to test the process in which customer information is sent to the Number Portability Administration Center (NPAC) <sup>44</sup> and then distributed to telecommunication carriers that will route calls to the different providers. In addition to testing for telephone numbers that move between carriers, ALECs will have to test to the E911/911 Public Safety Answering Point (PSAP) to insure that their customer information is updated and accessible to E911/911 PSAPs in a timely manner.

The Commission, in its December 23, 1997, Order, ordered that the task force investigate additional Indiana-specific issues and provide a status report. The Commission then conducted an evidentiary hearing on February 10, 1998, at which the subcommittee co-chairs entered an updated report into the record. The co-chairs also were made available for cross examination.

On February 17, 1998, the Commission issued a docket entry that found that the report and the results from the Administrative Law Judge's cross examination provided an inadequate record, making it impossible to determine the status and impact of implementing LTNP in the state of Indiana. Also, the Commission ordered in its docket entry that the smaller independent LECs identify their EAS routes into the affected MSAs and provide the Commission with the status of the preparations that were being made for LTNP implementation. The Commission requested this information so it could further assess the impact that LTNP will have on the smaller independent ILECs.<sup>45</sup>

---

<sup>44</sup> The NPAC is a regional database that is used to store routing information for telephone numbers that have moved to a new local exchange service provider. For example, when a customer selects a new service provider, the move is sent to the NPAC and the NPAC in turn sends the new information to the carrier's local database. The carrier then uses this information to determine which CO the call needs to be routed to in order to properly complete a call. The FCC selected Lockheed Martin as the NPAC for the Midwest region in its Order, FCC 97-289, In the Matter of Telephone Number Portability, Second Report and Order, released August 18, 1997, CC Docket No. 95-116.

<sup>45</sup> Currently, there are three options that have been identified for the smaller independents to use to terminate their customers' calls in an area where LTNP has been implemented. They can: 1) have a larger ILEC route calls, incurring a fee called a query charge each time a call is routed; 2) contract with a third party or; 3) upgrade their own network to route the calls themselves. A smaller independent LEC with a large amount of EAS traffic may find it more cost effective to upgrade its own network.



The Commission later determined in a March 12, 1998, docket entry that an agent should be appointed for this investigation in order for the Commission to gather as much information as possible before the FCC's June 30, 1998, deadline for implementing LTNP in the Indianapolis MSA. The Commission selected Ms. Charlotte TerKeurst, Vice President of Competitive Strategies Group, Ltd., because of her extensive background with LTNP as the former Manager of the Telecommunications Division at the Illinois Commerce Commission. The Commission directed Ms. TerKeurst to assess the status of federal, regional, state and telephone company activities regarding the testing, implementation, operation, monitoring of, and cost recovery for, LTNP in Indiana. Ms. TerKeurst was directed to assess whether or not these activities adequately address Indiana-specific concerns and identify any issues that need to be considered.

Ms. TerKeurst filed a report with the Commission on April 13, 1998, in which she outlined several areas that needed to be considered. Ms. TerKeurst recommended, among other things, more participation between companies providing LTNP and the E911/911 Public Safety Answering Position and law enforcement communities. Ms. TerKeurst stated that E911/911 Public Safety Answering Position providers and law enforcement communities must be informed about the preparations they need to make so a consumer's address can be obtained from the local exchange service provider when necessary.

Ms. TerKeurst also stated that several of the outstanding issues were being addressed at either a regional or national level and that there has been very little, if any, experience nationally with the impact that LTNP will have on the smaller independents with EAS into areas that have implemented LTNP. The Commission conducted a public evidentiary hearing on April 27, 1998, during which Ms. TerKeurst and other parties who filed responses to her report were cross-examined.

After Ms. TerKeurst filed her report, the FCC issued its Order, 98-82,<sup>46</sup> which identifies how companies will recover their costs and fund the NPAC.<sup>47</sup> The FCC's Order was in response to its mandate under section 251(e)(2) of the TA-96, which states in part, "[t]he cost of establishing . . . number portability shall be borne by all telecommunications carriers on a competitively neutral basis as determined by the Commission." The FCC's Order mandates that beginning February 1, 1999, the FCC " . . . will allow, but not require, rate-of-return and price-cap LECs to recover their carrier-specific costs directly related to providing long-term number portability through a federally tariffed, monthly number-portability charge that will apply to end users for no longer than five years as well as through a federally tariffed

---

<sup>46</sup> FCC 98-82, In the Matter of Telephone Number Portability, Third Report and Order, CC Docket 95-116, released May 12, 1998.

<sup>47</sup> FCC 98-82, ¶ 9.

intercarrier charge for long-term number portability query services they perform for other carriers; other telecommunication carriers may recover their costs directly related to providing long-term number portability in any lawful manner.”<sup>48</sup> The FCC Order further mandates that the end-user charge only can be applied to areas where consumers can benefit from LTNP, currently within the largest 100 MSAs.

In its Order the FCC also mandated that the funding for Lockheed Martin, the NPAC, will be based on a carrier’s end-user revenues. For those carriers that do not have end-users, it will be assessed \$100 per region, per year. Contributions will be made by all “. . . telecommunication carriers providing telecommunications service in areas that regional database serves to fund the operation of that regional database.”<sup>49</sup> This includes all local exchange carriers in the state of Indiana.

The query service that the FCC will allow ILECs to provide is the charge assessed when a telecommunications company does not obtain the routing information itself and sends a call to the ILEC for routing.

The Commission issued its Order in Cause No. 41083 on June 19, 1998. In its Order, the Commission found that access to number portability databases should be priced on a forward-looking basis, consistent with unbundled network elements and transport and termination costs developed in Cause Nos. 40618 and 40611, for GTE North and Ameritech Indiana, respectively. GTE North and Ameritech Indiana were ordered to file statewide tariffs; all other LECs are to provide access through interconnection agreements.

Additional matters resolved in the Order include carrier notification procedures; when number portability is implemented in an exchange; rating and billing methodologies; and service interruption reporting requirements. The Commission also expressed concern about the need to educate all 911/E911 providers and all law enforcement agencies when number portability is implemented. The Task Force was ordered to file a report in this Cause no later than August 1, 1998, identifying those agencies contacted; what steps have been taken; and a proposed plan for any additional actions needed to ensure proper coordination with 911/E911 and law enforcement agencies.

---

<sup>48</sup> FCC 98-82, ¶ 9.

<sup>49</sup> FCC 98-82, ¶ 116.

**SLAMMING**

During the 1998 session, the Indiana General Assembly passed anti-slamming legislation that prohibits telecommunications providers from switching customers to other providers without customer authorization. The bill, effective July 1, 1998, also outlaws "cramming" by prohibiting telecommunications providers from billing for services added to a customer's service order without the customer's authorization. Slamming and cramming complaints may be filed by the IURC on its own motion, by a customer, or by a telecommunications provider that was removed without the customer's authorization. The IURC may refer any slamming or cramming violation to the Office of the Attorney General for prosecution as a deceptive act. The law also requires the IURC to promulgate rules that ensure customers are not switched to other telecommunications providers without authorization or billed for services by a telecommunications provider that without the customer's authorization added services to the customer's order. The IURC's rules must be consistent with the FCC's rules concerning verification procedures for the switching of a customer's telecommunications provider. The IURC rulemaking initiative began in May 1998.

On the federal level, anti-slamming legislation passed the U.S. Senate, but awaits action by the House of Representatives. Senate Bill 1618 prohibits changes in telephone service providers without specified verification and requires the FCC to resolve slamming complaints through a simplified process. The bill also allows for treble damages and penalties of more than \$150,000 for repeat offenses. The legislation does not preempt any state law that imposes more restrictive requirements, regulations, damages, costs or penalties on changes in a subscriber's service or selection of a provider. Preemption has become a significant issue in light of a recently appealed Minnesota state court ruling that found that state regulation of slamming is preempted by the TA-96.

**INVESTIGATION OF TELEPHONE COMPANY BILLING PRACTICES**

On June 2, 1998, the Indiana Office of the Utility Counselor ("OUCC") petitioned the Commission to open an investigation regarding telecommunication company billing practices. As part of its petition, the OUCC asked the Commission to institute a rulemaking to update 170 IAC 7-1.1-12, the section of the Indiana Administrative Code that mandates the information that must be included in telephone bills.

In its petition, the OUCC stated the current billing standard, which requires cumulative amounts for service rather than service-by-service itemization, does not provide consumers with enough information to "effectively monitor their telephone billings for unwanted or unnecessary services," nor does it allow consumers to make comparisons between the services offered by their current local exchange carrier and

competitive carriers.<sup>50</sup> The OUCC also states that the Commission's rules are outdated because many new telecommunications service have been developed since the rules were last updated in 1979.

On June 25, 1998, the Commission opened an investigation into telecommunication company billing practices in Cause No. 41189. To date, Ameritech Indiana and Intermedia Communications, Inc. have petitioned the Commission to intervene in this proceeding. A prehearing conference has been scheduled for July 15, 1998. The investigation should continue through summer and fall 1998.

---

<sup>50</sup> Cause No. 41189, In the Matter of an Investigation Regarding Telephone Company Billing Practices, Itemized Telephone Bills, and Rulemaking to Revise 170 IAC 7-1.1-12, dated June 2, 1998.

#### 4. UNIVERSAL SERVICE

---

Universal service has always been an important issue in the telecommunications industry. The concept of universal service often assumes the widespread availability of certain telephone services at reasonable rates.<sup>51</sup> In Indiana, the General Assembly has declared that "[t]he maintenance of universal telephone service is a continuing goal of the commission in the exercise of its jurisdiction."<sup>52</sup>

The TA-96 seeks to advance and preserve universal service by empowering the FCC to develop a minimum definition of universal service and establish federal support mechanisms. States will remain responsible for implementing universal service in intrastate services.

#### **INDIANA HIGH COST FUND (IHCF)**<sup>53</sup>

The intrastate Indiana High Cost Fund (IHCF) is designed to provide financial assistance to certain small LECs with above-average intrastate Non-Traffic Sensitive costs to keep rates affordable. The IHCF assistance is intended to lessen the need for the affected LECs to raise their local rates to recover a portion of these Non-Traffic Sensitive costs. The Indiana High Cost Fund Administrator (Ameritech Indiana) makes two types of payments to qualified small LECs: 1) the End User Offset payments and 2) the regular High Cost Fund payments. Funding companies include all LEC intraLATA Toll Providers with certain types of annual billed intraLATA toll revenues of at least \$10 million; plus all interexchange carriers (IXCs), resellers and Alternative Operator Service providers with certain types of annual booked intrastate toll revenues of at least \$10 million. For the year ending December 31, 1997, LEC funding companies included Ameritech Indiana, GTE North and Sprint-United; long-distance funding companies included AT&T, MCI, Sprint and WORLDCOM/LDDS.

The IHCF Administrator calculates a total "revenue requirement" for the IHCF (including the total amount of the End User Offsets, the regular High Cost Fund, and Ameritech Indiana's expenses for administering the fund), based upon information provided by the small LECs plus certain previous

---

<sup>51</sup> In 1934, without actually using the phrase "universal service," Congress declared the following:  
"[T]he Federal Communications Commission shall regulate interstate telecommunications service 'so as to make available, so far as possible, to all people of the United States a rapid, efficient, Nationwide, and world-wide wire and radio communications service with adequate facilities at reasonable charges, for the purpose of the national defense, . . .'"  
Communications Act of 1934, ch. 652, SECT. 1, 48 Stat. 1064 (1934) (current version at 47 U.S.C. SECT. 151) (1982).

<sup>52</sup> I.C. 8-1-2.6-1(1).

<sup>53</sup> See, e.g., Cause No. 38269, at 53-62 (Ind. URC Oct. 7, 1992) (Phase II Executive Committee Report). See also Cause No. 38269, Finding No. 8, at 25-32, Ordering Para. No. 8 (incorp. Finding No. 8), at 41 (Ind. URC Dec. 18, 1992) (Phase II Order); Cause No. 37905, Attachment 1 (Ind. URC Sept. 19, 1990) (Final Report).

Commission determinations in Cause No. 37905 about the recipients and the amount of the End User Offset payments. The Administrator then determines each funding company's share of the annual revenue requirement, based upon each company's intrastate carrier common line charge access minutes (both originating and terminating) for the previous year. In 1989, the Commission set a cap on the total IHCF revenue requirement of \$1.5 million;<sup>54</sup> on December 18, 1992, the Commission reaffirmed this cap. In November 1997, revised data was submitted to the IHCF Administrator by a recipient company, which caused a recalculation of the amounts due to eligible companies. The revised calculation resulted in a total fund revenue requirement that would exceed the existing \$1.5 million cap. Therefore, on December 30, 1997, in Cause No. 40785, the Commission determined that the annual cap should be raised no more than \$250,000 to \$1.75 million.<sup>55</sup>

In 1997 based upon the revised calculation, the funding companies paid a total amount of \$1,548,525 into the fund. The IHCF Administrator had \$2,040 in expenses; \$1,458,574 was paid out to 15 different LECs for the regular High Cost Fund payments; \$87,912 was paid out to eight companies that were eligible for the End User Offset (six of those companies receiving regular High Cost Fund payments also were eligible for the End User Offset payments).

Section 254 of the TA-96 establishes new procedures and principles under which universal service requirements are to be reviewed by the FCC and state commissions. On November 5, 1997, in Cause No. 40785, the Commission began the process of bringing the IHCF into compliance with the TA-96 by determining that a new IHCF Administrator should be named by July 1, 1998, to replace Ameritech Indiana, the current Administrator. In a Docket Entry dated December 2, 1997, a Search Committee was appointed to screen and select candidates for the position.

To further its IHCF compliance initiatives, the Commission, in its December 30, 1997, Order in Cause No. 40785, found that a technical conference should be held in early 1998 to discuss changes to the existing IHCF, and stated that an evidentiary hearing should be set as soon thereafter as practicable. The parties were directed to discuss, at a minimum, five issues during the technical conference: Funding, Distribution of Funds, Dispute Resolution, Auditing and the Transition to a New Administrator. On February 13, 1998, the Search Committee filed an interim report in which it stated there were significant timing problems encountered when trying to secure a new fund administrator, because the entire framework of the new IHCF remained unresolved. Although an IHCF technical conference was held in March 1998 to discuss the five issues, there was consensus that further consideration of the matter should be deferred for the interim, pending resolution of several other outstanding universal service matters.

---

<sup>54</sup> Cause No. 38269 (Phase I), finding No. 5, at 10, 102 PUR4th 330, Ordering Para. No. 4, at 17 (incorp. Finding No. 5), 102 PUR4th 335 (Ind. URC April 12, 1989).

<sup>55</sup> Cause No. 40785, Finding No. 9, at 19.

**PUBLIC INTEREST PAYPHONES**

Section 276(b)(2) of the TA-96 states, "the Commission [FCC] shall determine whether public interest payphones which are provided in the interest of public health, safety, and welfare, in locations where there would otherwise not be a payphone, should be maintained, and if so, ensure that such public interest payphones are supported fairly and equitably."

In response to this mandate, the FCC on September 20, 1996, adopted and released a Report and Order in consolidated CC Docket Nos. 96-128 and 91-35 (FCC 96-388) adopting new rules and policies governing the payphone industry. The FCC concluded that states have the primary responsibility for administering and funding public interest payphone programs. The FCC directed each state to determine by September 20, 1998 whether it has adequately provided for public interest payphones in a manner consistent with the Report and Order.

The Commission held a series of technical conferences in March, April and May of 1998 to let interested parties discuss a plan for the provision of public interest payphones. More specifically, the parties worked together to develop a definition of a public interest payphone and an application form to be submitted to the Commission to request a public interest payphone. An evidentiary hearing is scheduled for July 7, 1998, to formally hear comments from the parties. A Commission Order will be issued before the September 20, 1998, deadline.

**TRANSITIONAL DEM WEIGHTING FUND**

On January 1, 1998, pursuant to FCC Orders FCC 97-158 and 97-159, interstate access charges were reduced. This reduction was accomplished in part by the removal of Dial Equipment Minutes (DEM) weighting factors from the interstate access charge. At present, small ILECs (i.e., those with 50,000 or fewer access lines) benefit from DEM weighting factors because the factors act as multipliers increasing interstate local switching revenue above what it would otherwise be. Although the FCC removed DEM weighting factors from interstate access charges on January 1, 1998, small ILECs have not suffered a decrease in interstate revenues; the FCC also has ordered the creation of a federal Universal Service Fund (USF) to allow small ILECs to recoup revenues that they would have lost as a result of the removal of DEM weighting factors from interstate access charges. From the small ILECs' perspective, this reclassification has no effect on the total interstate revenues that they will receive.

Since it is the Commission's policy to mirror changes in interstate access charges on an intrastate basis, intrastate access charges were reduced on January 1, 1998, by an amount equal to the reduction in the interstate access charge that resulted from the removal of the DEM weighting factors. From the

perspective of small ILECs operating in Indiana, this has resulted in a net loss of intrastate access revenues, because at present there is no provision for the creation of a state fund that is analogous to the federal USF. Unless a state USF is created, small LECs could face an estimated net loss of \$6 million annually in intrastate access revenues beginning on January 1, 1998.

The Indiana Exchange Carriers Association, a group representing Indiana's small LECs, negotiated a stipulated agreement with eight companies who would contribute to a Transitional DEM Weighting Fund (TDWF) to recoup the lost revenue.<sup>56</sup> The agreement became effective January 1, 1998, and expired on June 30, 1998.

In its June 30, 1998, Order in Cause No. 40785, the Commission determined that the TDWF should continue in effect until February 1, 1999. During this period, the Commission will conduct additional evidentiary hearings regarding the implementation of competitively neutral funding as well as disbursements to new beneficiaries. The first of such hearing is scheduled for August 24, 1998.

#### **SUBMISSION OF STATE-SPONSORED COST MODEL FOR USF**

On May 7, 1997, the FCC issued its Universal Service Order (FCC 97-157, CC Docket No. 96-45). In that Order, the FCC asked each state commission to elect, by August 15, 1997, whether it would develop its own forward-looking economic cost (FLEC) study, which followed the FCC's ten specific criteria, to calculate support for the federal USF. A FLEC study consists of a computer model and accompanying inputs, which together, yield cost results.

If a state developed its own FLEC study, that state was required to submit it to the FCC by February 6, 1998, for ultimate approval by the FCC. The FCC extended the date for submission of the FLEC study to April 24, 1998, and then to May 26, 1998. As the FCC noted in its USF Order, if a state elects not to submit its own FLEC studies, such state will become subject to a default cost model to be determined by the FCC.

On November 5, 1997, in its Order in Cause No. 40785, the Commission elected to develop a FLEC study for possible submission to the FCC, and determined that efforts to develop a FLEC model for Indiana should be confined to the Benchmark Cost Proxy Model (BCPM) proposed by Sprint instead of company-specific models. Aside from a consideration of limited staff resources being available to devote to testing and developing company-specific models, the Commission determined that: BCPM relies on widely accepted engineering principles that appropriately blend cost and efficiency; BCPM is neither

---

<sup>56</sup> The companies included AT&T, Ameritech Indiana, GTE, Frontier Communications International, Inc., LCI International Telecom, MCI, Sprint and LDDS Worldcom, Inc.



Indiana nor company-specific; BCPM is one of three models under consideration by the FCC for adoption as a "default" model; BCPM is not proprietary and is subject to testing and examination by a standard computer; and though BCPM may ultimately be rejected by the FCC as its default model, its familiarity to the FCC increases its chances for acceptance.

On April 23, 1998, the Commission issued an Order in Cause No. 40785 adopting the FLEC Studies submitted by Ameritech Indiana, GTE North and Sprint-United. In general the Commission used company-specific inputs to populate BCPM, although GTE was ordered to alter cost of capital and depreciation to adhere to the FCC's ten criteria. Along with the submission, the Commission specified that it reserved its right to revoke its commitment at a future time. First, Indiana presently has no universal service program as that term is used in the FCC's Universal Service Order. Even though the state has an Indiana High Cost Fund that is used to defray the cost of providing service in certain high cost areas, the need for an Indiana universal service program is a matter that the Commission is still investigating. Second, the Commission reserved its right to revoke its commitment once the FCC releases its own FLEC model. If the FCC model is better able to model Indiana's intrastate universal service costs, the Commission will use it. The Commission's ultimate goal is to compare the BCPM model and the FCC model so that it may determine which model is more suitable for use in determining federal and intrastate universal service support. The Commission submitted BCPM to the FCC on April 24, 1998.

#### **ELIGIBLE TELECOMMUNICATIONS CARRIERS**

In addition to promoting competition between providers of local telecommunications service, the TA-96 included provisions to promote the extension of "universal service" to selected groups of customers: low-income consumers; consumers in rural, insular and high-cost areas; elementary and secondary schools; libraries; and health care providers. To accomplish this goal, the TA-96 established what is commonly referred to as the USF. All telecommunications carriers that provide interstate service are required to contribute, on an equitable and non-discriminatory basis, to the fund.<sup>57</sup>

A telecommunications carrier must be designated by the state commission as an Eligible Telecommunications Carrier (ETC) in order to receive money back from the fund to implement these universal service initiatives. To be an ETC, a carrier is required by FCC Rule 54.101(b) to offer the following nine services:<sup>58</sup>

1. voice grade access to the public switched network;

---

<sup>57</sup> See generally, order in Cause No. 40785, dated March 26, 1997, p. 1.

<sup>58</sup> The Commission may waive the requirement to offer single-party service, access to 911/E911, and toll limitation, under certain circumstances.

2. local usage;
3. dual tone multi-frequency signaling or an equivalent;
4. single-party service or its functional equivalent;
5. access to emergency operator services;
6. access to operator services;
7. access to interexchange services;
8. access to directory assistance; and
9. toll limitation for qualifying low-income customers.

Additionally, ETCs are required by FCC Rules 54.405 and 54.411 to offer qualifying low-income customers both the Lifeline and Link-Up programs. FCC Rule 54.201(d)(2a) also requires that ETCs publicize the availability of the nine services and the Lifeline and Link-Up programs. Finally, for administrative purposes, the Commission required companies applying for ETC status to use a specific application form prescribed by the Commission and to submit maps indicating the areas for which ETC designation was being sought. Within the Commission's ETC docket (Cause No. 41052), the Commission received 41 ETC applications, all of which were subsequently granted.<sup>59</sup> Each incumbent local exchange carrier sought, and was granted, ETC status.

All 41 incumbent local exchange companies, as ETCs, now offer the federally mandated Lifeline and Link-Up programs. To qualify for assistance, customers must be participants in one of the following programs: Medicaid, food stamps, Social Security Income, federal public housing assistance or Low-Income Home Energy Assistance Program.

The Link-Up program, funded by the USF, provides customers with a 50 percent reduction in connection charges for single-line residence service, or total discount up to \$30. It also offers participants a deferred payment plan for charges up to \$200 for initiating service and waives associated interest charges for up to one year.

Lifeline is a program that provides assistance to reduce customers' monthly charges for single-line residence service by a base amount of \$3.50. The Commission also was permitted to request additional funding for ETCs in the amount of \$1.75 to further reduce subscribing Lifeline customers' monthly bills. The Commission did so and brought the total reduction in monthly fees for Lifeline customers to \$5.25. As with Link-Up, the Lifeline program offers participants a deferred payment plan for charges up to \$200 for initiating service and waives associated interest charges for up to one year.

---

<sup>59</sup> ETCs were permitted to receive universal service funding starting on January 1, 1998.

## 5. OPPORTUNITY INDIANA: AMERITECH INDIANA'S REQUEST FOR NEW FLEXIBLE REGULATION

---

On May 4, 1993, Indiana Bell Telephone Company, Inc., d/b/a Ameritech Indiana, filed an alternative regulation plan with the Commission that was docketed as Cause No. 39705. The proposal, filed pursuant to I.C. 8-1-2.6, was referred to by the company as "Opportunity Indiana." During the proceeding, Ameritech Indiana reached a series of settlement agreements with various parties that generally resolved and, in some cases, deferred disputed issues. Together these settlement agreements formed the foundation of the Commission's Order that was issued on June 30, 1994. As set forth in the June 30, 1994, Order, Ameritech Indiana received increased regulatory flexibility through December 31, 1997, with respect to the provision of pricing of its telecommunications services.

In anticipation of the expiration of Opportunity Indiana, Ameritech Indiana initiated Cause No. 40849 on May 1, 1997, and, again, sought flexible regulatory authority under I.C. 8-1-2.6. The petition in Cause No. 40849 requested that the Commission decline its jurisdiction, in whole or in part, over Ameritech Indiana's provision of retail and carrier access services as well as adopt alternative regulatory procedures for the company. Recognizing the possibility that the Commission might not be able to issue a final order on a comprehensive replacement regulatory structure by December 31, 1997, Ameritech Indiana also included a request to extend the existing terms of Opportunity Indiana on an interim basis in its petition.<sup>60</sup>

At a prehearing conference on June 18, 1997, the Office of Utility Consumer Counselor (OUCC) and intervening parties, most of whom were parties in the original Opportunity Indiana settlement agreement case, objected to any extension of Opportunity Indiana beyond its scheduled expiration on December 31, 1997. Upon agreement of the parties, a separate hearing was scheduled for July 21, 1997, to receive testimony about continuing Opportunity Indiana in the interim should issues related to a comprehensive replacement plan not be resolved prior to its expiration.

At the July 21, 1997 hearing, Ameritech Indiana presented testimony about continuing Opportunity Indiana on an interim basis. At the conclusion of Ameritech Indiana's case-in-chief, AT&T Communications of Indiana, Inc. (AT&T), pursuant to Indiana Trial Rule 41(B), made a motion to dismiss Ameritech Indiana's request for a temporary extension of Opportunity Indiana.<sup>61</sup> The OUCC and all

---

<sup>60</sup> Although Ameritech Indiana filed its petition on May 1, 1997, it was not until July 30, 1997, that Ameritech Indiana provided a specific regulatory proposal.

<sup>61</sup> Indiana T.R. 41(B) provides in part that, "After the plaintiff or party with the burden of proof upon an issue, in an action tried by the court without a jury, has completed the presentation of his evidence thereon, the opposing party, without waiving his right to offer evidence in the event the motion is not granted, may move for a dismissal on the ground that upon the weight of the evidence and the law there has been shown no right to relief. The court as trier of

intervening parties joined in AT&T's motion, which subsequently was granted by the presiding officers. Ameritech Indiana appealed the presiding officers' ruling to the full Commission and a briefing schedule for the parties was established.

Ten days later, on July 31, 1997, the Commission's Order on Appeal was issued. In part it stated:

Having reviewed Ameritech Indiana's case-in-chief, which consisted of twelve pages of testimony . . . , and having also reviewed the relevant statutes, administrative rules and trial rules, as well as the transcript of the July 21st hearing and the parties' briefs, we now find that, upon the weight of the evidence and the law Ameritech Indiana has shown no right to the interim relief requested. Specifically, we find that, whether or not Ameritech Indiana's scant evidence could support a finding pursuant to Indiana Code § 8-1-2.6-2 that the public interest requires this Commission to decline to exercise its jurisdiction, in whole or in part, over Ameritech Indiana once the relaxed regulatory structure we approved in Opportunity Indiana (I.U.R.C. Cause No. 39705, issued June 30, 1994) expires at the end of the year, [Ameritech's] testimony presents no "substantial evidence of a probative value" to support a finding pursuant to I.C. 8-1-2.6-3 that it would be in the public interest for us to impose the particular form of relaxed regulation requested by Ameritech Indiana—that is, the terms of Opportunity Indiana—on an interim basis after December 31, 1997. . . Accordingly, Ameritech Indiana's appeal of the granting of the motion to dismiss pursuant to T.R. 41(B) should be denied.

Having affirmed our challenge to the sufficiency of Ameritech Indiana's evidence in support of its request for interim relief, we are left with the possibility that Opportunity Indiana will expire before our resolution of the instant proceeding to design its replacement. Because I.C. §§ 8-1-2.6-2 and -3 also provide that this Commission may, on its own motion, conduct a proceeding to determine whether and how our jurisdiction over telephone companies may be appropriately relaxed, we further find that it is in the public interest for the parties in the instant proceeding to make another attempt to propose and support with substantial evidence of probative value an interim regulatory structure.<sup>62</sup>

The Order On Appeal also directed the establishment of an expedited schedule for considering the extent to which the Commission should relax its jurisdiction over Ameritech Indiana on an interim basis, if at all, as of January 1, 1998.<sup>63</sup>

---

the facts may then determine them and render judgment against the plaintiff . . ."

<sup>62</sup> Order on Appeal, pp. 2-3.

<sup>63</sup> The Order on Appeal prompted objections from several parties. These objections primarily related to issues about inadequacy of legal notice and preclusion as a result of res judicata. Concerns about proper legal notice were raised and/or supported by the OUCC, the Citizens Action Coalition of Indiana, the American Association of Retired Persons, Inc., TCG Indiana, and the Indiana Cable Telecommunications Association, Inc. These parties claimed that the Commission's Order on Appeal changed the nature of the proceeding, thereby triggering additional notice requirements. The Commission disagreed. In its October 15, 1997 Order on Interim Relief, the Commission determined that sufficient notice had been provided about the potential consideration of an interim plan pursuant to I.C. 8-1-2.6.

On September 30, 1997, the Commission began three days of hearings to consider what form of interim relief would be appropriate. Ameritech Indiana reiterated its position that relief take the form of Opportunity Indiana, although several other parties supported returning the company to traditional rate of return regulation in the interim. Two weeks later, on October 15, 1997, the Commission issued its Preliminary Order on Interim Relief (Preliminary Order).

In the Preliminary Order, the Commission concluded that it would be in the public interest to decline to exercise at least some of its jurisdiction over Ameritech Indiana on an interim basis. However, based upon the evidence, the Commission concluded that it should not take the form of Ameritech Indiana's existing Opportunity Indiana plan. In rendering its preliminary decision, the Commission proposed five requirements that it suggested might form the basis for an interim alternative regulatory framework.<sup>64</sup> The Preliminary Order made it clear that a sufficient record existed upon which to craft an interim regulatory structure. However, it also indicated that the Commission, the parties, and the public would be better served if the parties presented additional testimony in the time remaining before Opportunity Indiana expired.

For purposes of receiving additional testimony, a hearing was scheduled for November 17, 1997, although the hearing did not take place as planned. Instead, in the period between the issuance of the Preliminary Order and the scheduled hearing, several parties filed a variety of legal motions and briefs. Ultimately, after dispensing with these various legal and procedural issues, the Commission was left with very little time within which to issue an order setting forth an interim regulatory plan. Nonetheless, the Commission issued a Final Order on Interim Relief (Final Order) on December 30, 1997, using the testimonial record as it existed at the time that the Preliminary Order was issued.<sup>65</sup>

In addition to adopting the five requirements enumerated earlier, the Commission reasserted its jurisdiction over several areas of Ameritech Indiana's operations. The Final Order required Ameritech Indiana to: 1) apply Customer-Specific Offering requirements previously adopted in Cause No. 38561 to

---

With regard to res judicata issues, AT&T, MCI, Shared Technologies Fairchild, the OUCC, the Citizens Action Coalition of Indiana, the American Association of Retired Persons, Inc., TCG Indiana, and the Indiana Cable Telecommunications Association, Inc., all expressed or supported similar positions. They asserted that once the Trial Rule 41(B) motion was upheld by the Commission, Ameritech Indiana was barred by the legal doctrine of res judicata from attempting to obtain identical interim relief to its then existing Opportunity Indiana plan. In finding against these parties, the Commission determined that in order for res judicata to apply, the Order on Appeal would have had to constitute a final adjudication on the merits of extending Opportunity Indiana.

<sup>64</sup> Generally, the five requirements proposed to: 1) maintain the existing classification of Ameritech Indiana's services as Basic Local Service (BLS), BLS-Related, and Other; 2) maintain existing tariff structures, formats, and filing requirements; 3) apply the same regulatory requirements to Ameritech Indiana's carrier access services that are applied to all other ILECs; 4) require carrier access services to be submitted to the Commission for approval; and 5) apply the Commission's rules for standards of service (170 IAC 7-1.1, et seq.) and rules for extended area service (170 IAC 7-4, et seq.).

<sup>65</sup> The Final Order was approved by a vote of 4-1. Commissioner Mary Jo Huffman dissented.

the company's customer-specific, i.e., non-tariffed, contracts; 2) file market performance reports similar to those required of new entrants in the local market; 3) submit reports filed by other ILECs; 4) maintain depreciation records subject to the Uniform System of Accounts; 5) periodically report quality of service indices; 6) fulfill remaining infrastructure investments agreed to in Opportunity Indiana; and 7) decrease its residential and business rates by 4.6 percent.<sup>66</sup>

Ameritech Indiana appealed the Commission's Final Order to the Indiana Court of Appeals (Court).<sup>67</sup> The case is presently pending. In its Notice of Appeal, Ameritech Indiana asserted that the Commission's Final Order, which reduced the company's residential and business rates for basic local service, was without sound evidentiary basis and was contrary to law. The Notice also claimed that the Commission's Final Order was without sound evidentiary basis and was contrary to law when it directed Ameritech Indiana to make infrastructure investments of no less than \$150 million through 1999.

With regard to the rate reduction issue, the Commission's Final Order stated that Opportunity Indiana was a form of price cap regulation, and:

Unlike . . . traditional rate making, in which the Commission may examine a utility's earnings to determine whether its rates are too high or too low, the earnings of a company operating under price cap are generally subject to much less Commission scrutiny during the term of that price cap.<sup>68</sup>

The Commission also stated that:

In its instant request for interim relief, Ameritech Indiana is seeking . . . continued declination of the [Commission's] traditional authority to review the reasonableness of its rates for BLS and BLS-related services in exchange for a cap on the prices it may charge for such services . . . [C]ontinuing to cap the prices Ameritech Indiana may charge for BLS and BLS-related services represents a potentially preferable alternative to rate of return regulation, in keeping with [the Commission's] charge to be open to alternatives which promote "a more accurate evaluation by the commission of a telephone company's physical or financial conditions or needs, as well as a less costly regulatory procedure for either the telephone company, its consumers, or the commission," and "[r]egulation consistent with a competitive environment." I.C. 8-1-2.6.3; cf. Ameritech Indiana's Appeal to the Full Commission of the Docket Entry Entered in this Cause on November 4, 1997

---

<sup>66</sup> Two areas were exempted from the rate decrease because of regulatory developments. They were: 1) coin services, which largely have been deregulated by federal order and are the subject of proceedings in Cause No. 40830; and 2) Centrex services, which also largely have been deregulated and generally fall within Ameritech Indiana's "other" services category—the least stringently regulated of Ameritech Indiana's service categories.

<sup>67</sup> Ameritech Indiana's case was docketed by the Court as Cause No. 93A02-9801-EX-22.

<sup>68</sup> Final Order, p. 5. The Final Order also indicated that alternative regulation can provide a utility a tangible incentive to reduce its costs because it keeps some or all of the profit that might otherwise be deemed excessive.

and Motion to Strike Prefiled Testimony at 35 ("no continuing reason to cling to the outdated concept of rate of return regulation").

[The Commission's] agreement to relax [its] jurisdiction for the interim over Ameritech Indiana's earnings after December 31, 1997, in favor of a cap on Ameritech Indiana's rates necessarily depends on [the Commission's] determination of the appropriate level of the cap. Ameritech Indiana has proposed the cap stay at the same level as it was for the final year and a half of Opportunity Indiana. [The Commission] find[s], however, that the fact these rates were settled upon three and a half years ago by the parties to Opportunity Indiana tells us little about their appropriateness today. Are they too high, too low, or just right? That Ameritech Indiana is satisfied with the amount of revenue it receives from selling these services surely is evidence that the cap is not too low, but hardly satisfies the countervailing concern that it could be too high as the OUCC and all intervening parties have alleged.<sup>69</sup>

Ameritech Indiana repeatedly asserted that the Commission did not have the authority to change the price cap because the company "did not request any relief with regard to prices."<sup>70</sup> The Commission, however, concluded that the justification for capping rates at a particular level was essential to its consideration of Ameritech Indiana's request pursuant to I.C. 8-1-2.6. In determining an appropriate price cap, the Commission concluded that:

. . . any party may be entitled to a presumption that the existing rate is correct. That presumption, however, may be rebutted, and in our Preliminary Order, we found that the Residential Customers' witness . . . had effectively rebutted any presumption that Ameritech Indiana's BLS and BLS-related rates should be capped at their present levels after December 31st. Because the mere passage of time can and should alter those cost factors contributing to a utility's bottom line, price caps are not intended to be static. A utility experiencing net productivity gains after inflation can expect its costs to decrease. Consequently, when setting a price cap on a forward-looking basis, rates should be adjusted accordingly.

We are satisfied that Ameritech Indiana has experienced and will continue to experience net productivity gains in the future.<sup>71</sup>

In fact, the Commission went on to say:

. . . [It could not] find that the public interest would be served by keeping rates at the same level when Ameritech Indiana's filings with the federal Securities and Exchange

---

<sup>69</sup> Final Order, p. 6.

<sup>70</sup> Final Order, pp. 6-7.

<sup>71</sup> Final Order, p. 7.

Commission indicate that in 1996 it earned a 38.8 percent return on equity.<sup>72</sup> Ameritech Indiana has countered that such figures are irrelevant because they include results from some operations outside the Indiana jurisdiction and are not specific to its jurisdictional BLS and BLS-related services. Of course, it also maintains that such jurisdiction specific data does not exist. *See, e.g.,* Record at H-8. The OUCC has suggested that Ameritech Indiana's provision of company-wide data in response to the OUCC's data request relating to the company's jurisdictional financial performance provides a sufficient basis for us to conclude that such company-wide data are representative of Ameritech Indiana's intrastate operations. Whether or not [the Commission] agree[s] with the OUCC, for purposes of assessing whether the public interest will be served by relinquishing pursuant to I.C. 8-1-2.6 [the Commission's] ability to review Ameritech Indiana's earnings, we find that its total return on average equity is not only relevant, but is highly probative.<sup>73</sup>

Following a review of the evidence and the various alternatives presented, the Commission determined that it was appropriate to use a productivity factor for Ameritech Indiana as calculated by the Federal Communications Commission: 6.5 percent. This factor was reduced by 1.9 percent for inflation resulting in a 4.6 percent reduction in Ameritech Indiana's residential and business class rates.<sup>74</sup> Applying the productivity factor resulted in an overall reduction in rates of more than \$16 million; residential reductions accounted for more than \$8.5 million of this total.<sup>75</sup> Customers have not yet benefited from these Commission-ordered rate reductions because of Ameritech Indiana's appeal.

#### **INFRASTRUCTURE AND EDUCATION INVESTMENTS**

As noted previously, Ameritech Indiana also appealed the Commission's decision regarding infrastructure investment. On this issue, the final Order stated:

One of the terms included in Opportunity Indiana involved Ameritech Indiana's obligation to make a particular type of infrastructure investment "for each year 1994 through 1999." Paragraph 10(a) requires Ameritech Indiana to contribute \$5 million worth of "information processing and telecommunication equipment in each of those six years," while paragraph 10(b) of the Settlement Agreement contained Ameritech Indiana's commitment to spend \$20 million in each of those six years to provide "digital switching and transport facilities . . . to every interested school, hospital and major government center" in its territory.

---

<sup>72</sup> Final Order, p.8. Final Order cites to Intervenor Residential Customers' Cross-Examination Exhibit 2 at 8.

<sup>73</sup> Final Order, p. 8.

<sup>74</sup> Final Order, p. 8. The Final Order indicated that it was not the Commission's intent to relax its jurisdiction indefinitely over Ameritech Indiana's earnings. The Final Order reserved the Commission's right to implement further changes in the price cap after October 1, 1998, if a "permanent" (as opposed to interim) plan is not in effect.

<sup>75</sup> Commission news release dated December 30, 1997, p. 1. The news release indicated that these figures were based on the best information available to the Commission at the time.



In the three and a half years since . . . approval of the Opportunity Indiana Settlement Agreement, Ameritech Indiana has failed to live up to its infrastructure obligation. While it should have spent \$60 million pursuant to paragraph 10(b) by the end of 1996, [Ameritech Indiana] testified that as of June 1997 the actual total attributable to paragraph 10(b) was less than \$15.6 million.<sup>76</sup>

Ameritech Indiana explained that, try as it might, it had been unable to generate sufficient interest in telecommunications infrastructure among the schools, hospitals, and government centers that it served. The Commission determined that if Ameritech Indiana could not generate sufficient interest, Ameritech Indiana should try harder and solicit advice and assistance from Indiana's Intelenet Commission and parties to the Settlement Agreement.<sup>77</sup>

The Commission also was troubled by the suggestion that Ameritech Indiana might not honor the final two years' worth of infrastructure commitments. On this issue, the Final Order stated:

Notwithstanding the express requirement that Ameritech Indiana continue the paragraph 10 infrastructure investments through 1999, [Ameritech Indiana's witness] opined that, if the rest of Opportunity Indiana ends as scheduled on December 31, 1997, then "so does the infrastructure commitment." Record at E-39. [This statement] thus calls into question not only the final \$40 million [Ameritech Indiana] committed pursuant to paragraph 10(b) (\$20 million in 1998 and again in 1999), but also the \$10 million it owes for the final two years of its commitment under paragraph 10(a) (\$5 million for the Corporation of Educational Technology in 1998 and again in 1999.)

Although Ameritech Indiana indicated its willingness at the time to abide by the terms of the Opportunity Indiana Settlement Agreement, it also indicated that the enforceability of these infrastructure commitments following expiration of the rest of the plan on December 31, 1997, would be "left to the attorneys to decide." On this issue, the Commission indicated that it was:

. . . at a loss to explain how Ameritech Indiana could promise to invest \$150 million above and beyond its other planned infrastructure investments (see reference to [Ameritech] testimony on this issue on page 10 of our Order in Cause No. 39705)<sup>78</sup> through 1999 as a condition of the other parties as well as our own approval of Opportunity Indiana, including our adoption of a price cap, and then unilaterally reduce that obligation by \$50 million. While [the Commission is] pleased that Ameritech Indiana

---

<sup>76</sup> Final Order, pp. 11-12.

<sup>77</sup> Final Order, pp. 11-12.

<sup>78</sup> The Order in Cause No. 39705 indicated that these infrastructure investments were to be "incremental to planned investment."

has thus far signaled its willingness to continue its infrastructure investments, we find that such investments are not optional, and should continue beyond December 31, 1997. . .<sup>79</sup>

The Final Order directed Ameritech Indiana to file a report with the Commission by April 3, 1998, outlining its compliance with the infrastructure provisions set forth in the original Opportunity Indiana case.

In response to the December 30 Order in Cause No. 40849, Ameritech Indiana did file an Infrastructure Report with the Commission on April 3, 1998, in which it reported having spent \$18.75 million supporting the Corporation for Educational Communication and \$17.8 million for the direct broadband infrastructure to schools, hospitals and government centers in the form of fiber optics. Ameritech Indiana further claimed that it had invested \$8.9 million in infrastructure that was associated with Opportunity Indiana, \$28.7 million in digital switching equipment, and \$24.7 million in digital inter-switching office transport facilities used by the targeted customer segments. Thus, Ameritech Indiana claimed that the total infrastructure expenditures for the Opportunity Indiana infrastructure commitment totaled \$79.4 million, not the \$15.6 million that had been reported by Ameritech Indiana during the public hearing in Cause No. 40849 in June 1997.

On June 16, 1998, the Commission issued a Docket Entry in Cause No. 40849, responding to the company's April 3 report. In this Docket Entry, the Commission requested that Ameritech Indiana provide, within 30 days, additional information about the infrastructure "associated" with the direct fiber optic investment and other facilities included in the \$79.4 million dollars total. The information requested is as follows:

1. a breakdown by exchange and account for each of the three categories in the chart on page 12 of the Infrastructure Report;
2. an allocation of costs between paragraph 10(b) customers and other customers, by class, for each exchange and account identified in response to Question 1, above;
3. a list of all tariffs, CSOs, ICAs or ICBs under which service is provided in the exchanges to which the expenditures referenced in Question 1, above, are allocated;
4. copies of any "Proof of Compliance" reports prepared pursuant to paragraph 10(b);
5. proposed construction budgets by exchange and account for each year from 1992 to date, as well as citations to IURC proceedings for the statement on page 12 of the Infrastructure report regarding planned capital expenditures of \$150-170 million;

---

<sup>79</sup> Final Order, p. 12.

6. actual plant additions by exchange and account for each year from 1993 to date;
7. news releases describing actual paragraph 10(b) expenditures;
8. any cost studies completed for purposes of allocating the expenditures listed on page 12 of the Infrastructure Report; and
9. any previous reports, such as referred to on page 9 of the Infrastructure Report.

### **FREE SUBSCRIPTION PROGRAM RESULTS**

In order to advance universal service, Opportunity Indiana provides that Ameritech Indiana will waive certain nonrecurring charges associated with initiating telephone services (customer deposit, line connection charges, and service order charges) for new customers living in geographic areas with below-average telephone service penetration rates, during a preselected 30-day period each year (through 1997). Ameritech Indiana has offered the free subscription program four times, in November of 1994, 1995, 1996 and 1997. The results of the offerings are as follows.

#### **November 1994**

The initial waiver was offered to 42,000 potential customers in November 1994 and attracted 1,516 new subscribers (approximately 3.5 percent of potential subscribers). There were no additional eligibility requirements beyond this residency requirement, such as household or personal income, receipt of public assistance income, etc.

Six months after the free subscription was offered for the first time (May 31, 1995), 360, or 24 percent, of the 1,516 customers that initially received local service under the plan either discontinued service or were disconnected by Ameritech Indiana. Customers who discontinued service gave the following reasons: moving, no further use, could not afford or disaster. Ameritech Indiana disconnected customers for non-payment, abandoned service or fraud. Eighteen months after these customers started service under the plan (May 31, 1996) 1,065 customers (70 percent) no longer had local telephone service. As of May 31, 1997 (two and one half years after being connected), only 280 customers (18.45 percent) remained on the network. By April 30, 1998, 253 (16.67 percent) remained on the network. See Appendix 5-A for detailed results.

November 1995

Free subscription was again offered in November, 1995, which resulted in 237 new subscribers. Through May 31, 1996, 94 (40 percent) of those customers either discontinued service or were disconnected by Ameritech Indiana. As of May 31, 1997, 67 customers (28.26 percent) remained on the network. As of April 30, 1998, 61 customers (25.74 percent) remained on the network. See Appendix 5-A for detailed results.

November 1996

Free subscription was offered for a third time in November 1996, which resulted in 175 new subscribers. Through May 31, 1997, 46 (26 percent) of those customers either discontinued service or were disconnected by Ameritech Indiana; 129 (73.71 percent) remained on the network. As of April 30, 1998, 103 customers (58.86 percent) remained on the network. See Appendix 5-A for detailed results.

November 1997

Free subscription was offered for a fourth time in November 1997, which resulted in 532 new subscribers. Through April 30, 1998, 125 (23.50 percent) of those customers either discontinued service or were disconnected by Ameritech Indiana. As of April 30, 1998, 407 (76.50 percent) customers remained on the network. See Appendix 5-A for detailed results.

Appendix 5-A contains a summary table of the results for all four offerings of the Free Subscription Plan, which shows that approximately 33.5 percent of the customers who started service under the plan over the last 42 months remain on the network. The information obtained from the Free Subscription Program needs to be carefully analyzed to help the Commission better understand the policies and/or support mechanisms necessary to advance universal service.

**QUALITY OF SERVICE**

In its December 30, 1997 Order in 40849, the Commission found that Ameritech Indiana should begin reporting quality of service data on a quarterly basis. Reporting is to be based upon quality of service standards applicable to all telephone companies in Indiana that were adopted by the Commission in 1979.<sup>80</sup> (170 IAC 7-1.1 et.seq.) On June 9, 1998, the initial "Review of Service Quality Results for Ameritech Indiana" was presented to the Commission. For the first quarter of 1998, Ameritech Indiana indicated that it was meeting or exceeding 7 out of 9 of the 1979 Quality of Service Standards-First Quarter as shown in table 3:

---

<sup>80</sup> Final Order @p. 11.

**TABLE 3  
FIRST QUARTER, 1998**

<b>CATEGORY</b>	<b>COMMISSION STANDARD</b>	<b>1st QTR RESULTS</b>
1. Installation intervals	90% of requests of primary service satisfied within 5 days	98.6%
2. Repair-reports per 100 access lines	Trouble reports will not exceed 10 reports per 100 total lines	1.83
3. Out-of-service cleared within 24 hours	Service repair practices shall be designed to restore service within 24 hours	72.2%*
4. Repair answer	80% of all calls answered within 20 seconds	82.7%
5. Business office answer	80% of all calls answered within 20 seconds	46.0%*
6. Operator Answer Information/Intercept	All calls answered within average of 7.7 seconds	5.03
Toll/Assist operator answer	All calls answered within average of 3.3 seconds	2.75
7. Dial tone speed	95% in 3 seconds	99.40%
8. Trunks	97% no blockage	97.20%
9. Local call completion	95% completion	100%
10. Out-of-service carried over		70.4% <sup>81</sup>

\* Below the Quality of Service Standards

<sup>81</sup> Ameritech Indiana disputes this result as not being a valid service quality indicator as defined by Administrative Code; however, this specific indicator is required per the Order in 40849.

## 6. RBOC ENTRY INTO INTERLATA LONG DISTANCE

---

### BACKGROUND

While most of this report focuses on those provisions of the TA-96 directly related to local exchange competition, Congress also established a process (in Section 271) that allows RBOCs, such as Ameritech Indiana, to enter the interLATA (Local Access and Transport Areas) long distance market within their respective regions. Prior to passage of the TA-96, the RBOCs were prohibited from providing interLATA service by the terms of the Modified Final Judgement, a 1984 consent decree between AT&T and the U.S. Department of Justice.<sup>82</sup>

Section 271(e)(2) of the TA-96 establishes a *quid pro quo* for RBOCs to enter the interLATA market in exchange for allowing competitors to provide local service in the RBOCs' previous monopoly territories. Before an RBOC can enter this long distance market it must demonstrate compliance with the so-called "14-point checklist" (Sect. 271(c)(2)(B)).<sup>83</sup> In very general terms, the RBOC may do this in one of two ways: 1) by showing that there is at least one unaffiliated facilities-based local competitor that is actually providing local exchange service to both residential and business customers in the RBOC's territory; or 2) if the RBOC has not received a request for interconnection, through a "Statement of Generally Available Terms (SGAT), which identifies the steps the RBOC has taken to make it possible for facilities-based local competitors to interconnect with its facilities and to obtain the services, functionalities and elements they need in order to offer local exchange service in competition with the RBOC in question."<sup>84</sup>

---

<sup>82</sup> (Consol.) *U.S. v. Western Electric and AT&T*; *U.S. v. AT&T*, 559 F.Supp. 990 (D.D.C. 1983), (entire case) *aff'd sub nom.*, (mem.), *California v. U.S.*, 464 U.S. 1013. Title VI, Section 601 (a)(1) of TA-96 generally supersedes the MFJ, while Section 272 contains more specific alternative requirements which replace various restrictions contained in the MFJ, including the interLATA restrictions.

<sup>83</sup> For example, within the states of Illinois, Indiana, Michigan, Ohio and Wisconsin, the Ameritech Operating Companies (Illinois Bell, Indiana Bell, Michigan Bell, Ohio Bell, and Wisconsin Bell) provide local exchange service, vertical services (e.g., call waiting), access services and intraLATA (or equivalent) toll services to residential, business, commercial, government and institutional customers; as well as more specialized voice and data services and functionalities to non-residential customers.

<sup>84</sup> Section 271 applies only to the RBOCs. The separate consent decree (*U.S. v. GTE Corp.*, 603 F.Supp. 730 (D.D.C. 1984)) which placed certain restrictions on the ability of GTE to offer interLATA long-distance services, absent a separate subsidiary, was superseded by Title VI, Section 601(a)(2) of TA-96. Smaller independents, such as Sprint-United, were never subject to such consent decrees and are free to offer interLATA interexchange services within the state of Indiana, subject to the approval of this Commission.

The RBOC desiring to provide interLATA service within its region must receive authority to do so from the FCC by demonstrating compliance with the 14-point checklist. The FCC has 90 days to approve or reject the application.

Prior to issuing its written determination, the FCC must consult with both the U.S. Attorney General and the applicable state utility commission. The FCC must give "substantial weight" to the recommendations of the Attorney General, who may use any standard he/she believes is appropriate. Each state must verify that the application for that state complies with the requirements of Section 271(c).<sup>85</sup> On December 6, 1996, the FCC issued its Public Notice of "Procedures for Bell Operating Company Applications Under New Section 271 of the Communications Act." Among other requirements, states must complete their respective review processes for any particular Section 271 filing within the first 20 days of the 90-day review period.

#### **SEPARATE SUBSIDIARY REQUIREMENT**

Congress has imposed at least one more set of constraints on the ability of RBOCs to provide interLATA service within their respective regions. Under Section 272 of the Telecommunications Act of 1996, a Bell Operating Company ("BOC") may not manufacture equipment, originate in-region interLATA telecommunications services, or provide interLATA information services unless it conducts these operations through one or more separate affiliates and complies with certain other requirements included in the Act. Section 272(b) of the Act establishes certain structural and accounting requirements to assure that the separate affiliate operates independently of the BOC. In addition, Section 272(d) requires that any BOC required to operate a separate affiliate under Section 272 must obtain and pay for a federal/state joint audit every two years. The audit is to be conducted by an independent auditor to determine whether the company has complied with the requirements of Section 272 and any other regulations promulgated under Section 272.

To oversee the biennial audits, a Federal/State Biennial Audit Oversight Group (Oversight Group) was established pursuant to Section 53.209(d) of the FCC rules. The Oversight Group includes staff members from 44 state regulatory commissions and the FCC. The Indiana Utility Regulatory Commission is represented by two members of its Telecommunications Work Group. The Oversight Group is subdivided into five regional oversight teams, one for each RBOC. Each team is comprised of two members from the FCC and members from the state commissions that are participating in this project and have jurisdiction over that RBOC. The oversight team is required, under Section 53.211 of the FCC rules,

---

<sup>85</sup> Even after approving a Section 271 application, if at any time the FCC determines that the RBOC is not continuing to comply with all of the statutory requirements, the FCC may, after notice and opportunity for hearing, 1) issue an order to the RBOC to correct the deficiency, 2) impose a penalty on the RBOC, or 3) suspend or revoke its approval (Sect. 271(d)(6)(A)).

to review the RBOC's preliminary audit requirements before the company engages an independent auditor to conduct the audit. The oversight team is required to determine whether the preliminary audit requirements meet the audit requirements prescribed in Section 53.209(b) of the FCC rules and to make modifications where necessary. On August 27, 1997, the Oversight Group published a proposed generic model for preliminary audit procedures and requested comments. Comments were filed by many companies, industry groups and Certified Public Accounting firms. After considering the original and reply comments the Oversight Group decided that the required audit should be an Agreed-Upon Procedures (AUP) engagement. Procedures have been drafted by the Oversight Group and were still in draft form as of the date of this writing.

On June 14, 1996, in Cause No. 40509, Ameritech Communications of Indiana, Inc., which Ameritech Indiana has designated as its separate subsidiary for the provision of non-incidental interLATA traffic in Indiana, filed a petition for authority to provide a full range of intraLATA and interLATA long-distance telecommunications services within the state. The Commission has not yet issued an order in this cause. It should be noted, however, that Ameritech Indiana, its parent company, and its corporate affiliates have not made any Section 271 filings for the state of Indiana with the FCC. Until such a filing is made, and until the FCC grants the necessary in-region interLATA authority based on that filing, Ameritech Communications of Indiana, Inc. will not be able to provide non-incidental interLATA service in Indiana, even with approval from the Commission. -

On November 4, 1996, in a separate case (Cause No. 40671), Ameritech Communications, Inc., filed a request with the Commission for authority to provide an entire range of intrastate services, including local exchange services, on a bundled resale basis to both business and residential customers in those areas of the state of Indiana where Ameritech Indiana, Sprint-United or GTE serve as the ILEC.<sup>86</sup> On November 6, 1997, Petitioner Ameritech Communications, Inc. filed its "Motion of Withdrawal and Motion to Dismiss Without Prejudice." On December 16, 1997, the Commission granted this motion and the cause was dismissed without prejudice.

#### **STATEMENT OF GENERALLY AVAILABLE TERMS (SGAT)**

On October 23, 1996, Ameritech Indiana filed a Verified Petition for Approval of a Statement of Generally Available Terms pursuant to Section 252(f) of the Telecommunications Act of 1996 (TA-96). The purpose of Ameritech Indiana's petition was to establish "generally available" terms and conditions by which Ameritech Indiana would meet its obligations under sections 251 and 252(d) of the TA-96 and the FCC's rules implementing those sections. The petition also was intended to facilitate the negotiation

---

<sup>86</sup> In re Petition of Ameritech Communications Inc. For a Certificate of Territorial Authority to Provide Intrastate Telecommunications Services, at Intro. Para., p. 3 (Cause No. 40671) (Nov. 4, 1996).



and arbitration process provided for in section 252 of the TA-96.<sup>87</sup> The Commission issued an Order on December 18, 1996, that permitted the SGAT to take effect pending further review.

On December 19, 1997, prior to a more thorough review being conducted, Ameritech Indiana filed a Motion to withdraw the SGAT. In its motion, Ameritech Indiana indicated that ongoing litigation in other jurisdictions was further defining what was required of the company in order to comply with Sections 251 and 252 of the Act. Additionally, the company indicated that new entrants were not using the SGAT as a baseline for discussions in the arbitration and negotiation processes as the company had hoped. On January 28, 1998, in response to Ameritech Indiana's motion, the Commission issued an Order withdrawing the effectiveness of the SGAT and related documents.

**IURC INVESTIGATION INTO AMERITECH'S COMPLIANCE WITH SECTION 271 (IURC CAUSE NO. 40641)**

On October 9, 1996, the Commission initiated an informal investigation "concerning Indiana Bell Telephone Company, Inc. d/b/a Ameritech Indiana's Compliance with Section 271 of [TA-96]" through a Notice of Inquiry. The notice indicated that it was not a "general rulemaking or generic proceeding" and, because Ameritech Indiana had not yet filed its Section 271 application for the state of Indiana with the FCC, would be considered "non-decisional" in nature. The Commission sought comments from Ameritech Indiana and any other interested party on whether Ameritech Indiana was offering the 14 items contained in the 14-point checklist; the identity of all entities who had sought interconnection with Ameritech Indiana or were seeking unbundled network elements or the ability to resell Ameritech Indiana local exchange services; data on Ameritech Indiana's facilities, equipment and revenues; comparisons of the volumes of exchange access traffic between Ameritech Indiana and any local competitor(s); and recommendations from the various parties regarding the criteria this Commission should consider in evaluating Ameritech Indiana's Section 271 application.

It is anticipated that this cause, or some other IURC proceeding, may be used to allow the Commission to elicit the information it needs in order to verify to the FCC that Ameritech Indiana has complied with Section 271(c) of the Act, as described elsewhere in this section.

---

<sup>87</sup> Petition, p. 3.

## 7. EXTENDED AREA SERVICE (EAS)

---

Extended Area Service (EAS) is telephone service that allows persons in a given exchange to place and receive calls from a different exchange without an additional toll charge. Most existing EAS areas have evolved over the years based on community of interest and have been in place for many years. The costs to provide existing EAS services have been included in averaged local rates so there is generally no additional monthly cost to customers of the exchange for their toll-free calling areas.<sup>88</sup>

As time passed and communities changed and grew, customers' calling needs also changed and grew. The Commission received increasing numbers of inquiries from telephone customers who were dissatisfied with their toll-free calling areas. Many calling areas did not (and do not) conform to county boundaries, school districts, etc. Many customers were not (and are not) able to call law enforcement or emergency services without incurring toll charges. For a period of time, the IURC had no program to address the needs of these customers, and local exchange telephone companies were not initiating changes in EAS areas. In response to this growing need, the Commission drafted administrative rules establishing a process to implement new EAS, which were approved in 1986 and are found at 170 IAC 7-4, et seq.

The IURC administers these rules, which are designed to provide customers in telephone exchanges the opportunity to determine if toll-free calling will be established between those exchanges. To initiate this process, customers submit a petition (signed by the greater of 10 percent or 100 customers of the exchange) requesting toll-free calling to another exchange. Upon receipt of such petition, the Commission orders the involved local exchange telephone company (or companies) to conduct a study of the calling patterns between the two exchanges. If the results of those studies indicate sufficient calling being made by the customers of the exchanges in accordance with IURC rules, the IURC then orders the telephone companies to conduct studies to determine the costs (capital investment, operating/administrative expenses and lost toll revenues) of establishing toll-free calling between the exchanges. The IURC must review and approve all studies before issuing orders on those studies. The telephone companies are then ordered to ballot the customers of the exchanges by mail to determine if the customers are willing to pay an additional monthly rate to have unlimited toll-free calling between the exchanges. A simple majority of the voting customers determines if the toll-free calling is established for the entire exchange.

The EAS program has met with considerable customer interest; however, a limited number of EAS petitions have been implemented. Since 1986, the Commission has processed 200 petitions, with only 19 having been implemented. There are a variety of reasons why petitions fail. Many times, studies of the

---

<sup>88</sup> GTE North, Inc. has a separate EAS cost recovery component called an EAS Adder that was initially approved in the Final Order in Cause No. 36452 on December 16, 1981. The EAS Adder was limited to existing customers ("grandfathered") on July 22, 1992, because of unanticipated results when the EAS Adder was applied in the development of cost of service studies under the Commission's EAS Rules.

calling patterns do not meet the program's minimum criteria, which would indicate insufficient calling and lack of real community of interest. Other times, the cost of establishing the service is high, and customers vote against it. To minimize rate and revenue impact on the customers and the utilities, the rules allow for recovery of EAS costs over a five-year period. Customers who live in the exchanges where EAS is implemented pay a monthly surcharge on their bills for five years to cover the cost of establishing the EAS. The EAS cost components (capital investment, operating/administrative expenses and lost toll revenues) included in the process can be expensive. Moreover, many of the exchanges involved in the process are very small, and the resulting cost per customer is high. These factors can lead to the requested service being cost-prohibitive.

The IURC continues to monitor an optional EAS calling plan initiated on a trial basis in 1996 by GTE North, Inc.

#### **GTE LOCAL CALLING PLAN**

On May 30, 1996, the Commission approved a proposal by GTE North, Inc. (GTE) to initiate a 12-month trial of an optional EAS calling plan, entitled the GTE Local Calling Plan (LCP), to replace existing intrastate, intraLATA message toll calling charges between certain GTE exchanges. The LCP provides an optional local calling plan between GTE exchange areas in the Terre Haute LATA where EAS calling does not presently exist, but where there is a community of interest of at least 1.5 calls per customer account per month. (to be eligible to petition for non-optional flat-rated EAS under the IURC's existing EAS Rules, the minimum community of interest is 3 or more messages/customer account/month and 50 percent or more of the customers make 3 or more messages/customer account/month.)

The LCP uses 7-digit dialing, is accounted for as local service, and is available to both business and residence service classes with the following exceptions: Residence 2 and 4-party service, Public or Semi-public service, Customer-Owned Pay Telephone Service or Foreign Exchange Service. The LCP consists of three optional calling plans from which customers may choose: Community Calling Plan -- calling to all eligible EAS exchanges based upon usage charges; Community Plus Plan -- unlimited flat-rated calling to one eligible EAS exchange with calling to all other eligible EAS exchanges based upon usage charges; Premium Plan -- unlimited flat-rated local calling to all eligible EAS exchanges. (See Appendix 7-A for details.) Results of the first year of the trial are as follows:

As of January 1998, a total of 67,439 access lines were eligible to participate in one of the LCP's three optional calling plans. A total of 11,136 customers, which represents 16.51 percent of the eligible access lines, were subscribed to the LCP: Community Calling Plan -- 2,408; Community Plus Plan -- 8,003; and Premium Plan -- 725.

Generally, the exchanges with strong economic ties to one another have had higher sign-up rates. On an individual exchange basis, Farmersburg had the highest LCP penetration at 70.01 percent. Terre Haute had the lowest penetration at 10.24 percent, which may indicate that Terre Haute's original calling scope is sufficient for most customers.

The most popular LCP proved to be the Community Plus, with both flat-rated and usage charges. The Community Plus option has experienced an increase of about 200 access lines per month for the first 6 months and 165 per month for the second 6 months of the trial; Community Calling and Premium subscription rate growth has been relatively flat for the second 6 month period, with penetration stabilized at approximately 3.5 percent and 1 percent, respectively.

GTE is currently reviewing pricing issues for an anticipated expansion of the LCP trial to certain GTE exchanges within the Fort Wayne LATA.

### **LAKE COUNTY EAS**

In July 1996, the Commission received several petitions signed by the residents of the Lowell and Crown Point communities in Lake County, requesting extended area service to various other communities in Lake County.<sup>89</sup> These petitions were processed under the Rules for Extended Area Service (170 IAC 7-4 *et seq.*), and dismissed on November 13, 1996, because the petitioning exchanges did not meet the Community of Interest requirements of the Rules. On December 2, 1996, the petitioning exchanges filed a Request for Reconsideration of the Commission's actions, claiming that the toll calling usage study was inaccurate.

On March 26, 1997, the Commission ordered in Cause Nos. 40528-EAS, 40529-EAS, 40531-EAS, 40535-EAS, and 40537-EAS through 40545-EAS that an additional toll calling usage study be prepared for each request within 120 days. In the orders, the Commission noted that "[w]hile the Commission may consider alternatives under [170 IAC 7-4-8], we note that no such alternative has been presented by any party to this Cause for consideration at this time."

On June 4, 1997, Ameritech Indiana presented an alternative calling plan to the Commission's Director of Consumer Affairs. The alternative included establishing local calling among all the Ameritech Indiana exchanges and rates for this calling scope that are in the mid-range between two existing rate classifications [Rate Class 2 and Rate Class 3].

---

<sup>89</sup> See Cause Nos. 40528-EAS, 40529-EAS, 40531-EAS, 40532-EAS, 4053-EAS, 40537-EAS through 40545-EAS.

The Consumer Affairs Division of the Commission received approximately 3500 telephone calls and letters from Lake County customers individually regarding the plan. As of January 28, 1998, 81 percent of these customers were in favor of the plan, while 15 percent were opposed. In addition, the Director of Consumer Affairs attended 4 public meetings regarding the plan during the Fall of 1997: Crown Point, Highland, East Chicago and Gary.

On June 29, 1998, the Commission approved Ameritech Indiana's alternative EAS plan that included establishing local calling among all the Ameritech Indiana exchanges in Lake County and rates for this calling scope. Under conditions contained in the Orders, the process of implementing EAS between these exchanges will begin immediately.

## 8. NUMBER ADMINISTRATION

---

The TA-96 mandated in Section 251(e)(1) that the FCC "create or designate one or more impartial entities to administer telecommunications numbering and to make such numbers available on an equitable basis." In response to the mandate, the FCC released its Local Competition Order 96-333.<sup>90</sup> This order, among other things, addresses the roles that states may take in the administration of the North American Numbering Plan (NANP).

In the NANP, a phone number consists of a three-digit area code, a three-digit central office (CO) code, and a four-digit line number. Typically, each CO code, or prefix, has a block of 10,000 unused numbers assigned to it. A new area code makes possible the addition of more than 700 three-digit prefixes (or 7 million new phone numbers) that can be used to assign new seven-digit telephone numbers. Until October 1997, Bellcore was the entity that had the authority to assign new area codes across the nation and administer the NANP. Ameritech Indiana was appointed CO code administrator for Indiana by Bellcore in 1984 after the breakup of AT&T. In such capacity, Ameritech Indiana administers the assignment of CO codes for all local phone companies, cellular providers, paging companies, and alarm companies. Ameritech Indiana also is responsible for predicting exhaustion and initiating relief of numbers within Number Plan Areas, or area codes, within Indiana.

Before the enactment of the TA-96, the FCC in its NANP Report and Order 95-283<sup>91</sup> created a federal advisory committee called the North American Numbering Council (NANC). One of NANC's charters is to select a "non-government entity that is not closely identified with any particular industry segment" to administer the NANP.

NANC recommended to the FCC on May 15, 1997, that the FCC should select Lockheed Martin to be the neutral administrator of the NANP. The FCC adopted the recommendation in its NANP Third Report and Order 92-372<sup>92</sup> after which NANC coordinated the transfer of Bellcore's responsibilities to Lockheed Martin. Ameritech Indiana will transfer its CO code administrator responsibilities by January 1, 1999.

---

<sup>90</sup> FCC 96-333, Second Report and Order and Memorandum Opinion and Order (Second Report), released August 8, 1996, In the Matters of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996 and Administration of the North American Numbering Plan (NANP).

<sup>91</sup> FCC 95-283, In the Matter of Administration of the North American Numbering Plan, released July 13, 1995.

<sup>92</sup> FCC 92-372, Third Report And Order and Third Report And Order (Third Report), released October 9, 1997, In the Matters of Administration of the North American Plan, CC Docket 92-237, and Toll Free Service Access Code, CC Docket 95-155.

The FCC, in its Local Competition Second Report, determined that the charter of the NANC satisfied the mandate in Section 251(e)(1) of the TA-96 by placing number administration with a neutral third party. Also in its Second Report, the FCC determined that if a state wishes, it may initiate and plan area code relief, a function currently provided by Ameritech Indiana in Indiana. If a state does not wish to perform this function, area code relief planning will become the responsibility of Lockheed Martin as the new NANP administrator, although the final approval of any area code relief plan remains under the jurisdiction of state commissions.

The Commission determined that it would be more efficient to use Lockheed Martin for initiating and planning area code relief for the state of Indiana since it is a neutral third party, allowing it to participate directly in relief efforts with telecommunication carriers and all other interested parties. The staff is working with Lockheed Martin to develop a procedure to follow the predicted area code exhaust dates and the mechanism that will be used to notify the Commission when relief efforts need to be initiated.

---

**9. EQUAL ACCESS INTRASTATE, INTRALATA TOLL**

---

On August 8, 1996, the FCC issued its 96-333 Order,<sup>93</sup> which allows a consumer to presubscribe to different carriers for interLATA and intraLATA toll service on an equal access basis. The customer also may choose the same carrier for both interLATA and intraLATA service. This means that a customer may dial a toll call through the carrier of choice using 1+ or 0+ dialing without dialing an access code or any additional account information.

The FCC order established guidelines and time frames that an ILEC must follow to implement intraLATA toll dialing on an equal access basis. The requirements must be fulfilled on or before February 8, 1999. The FCC mandated that if an ILEC was offering interLATA toll services within its region when the FCC order was released, the ILEC had until August 8, 1997, to implement intraLATA toll on an equal access basis at parity with itself. The order also determined that a RBOC must provide equal access in conjunction with its entry into the in-region interLATA toll market, and all other ILECs must provide toll equal access within six months of a bona fide request, unless the ILEC qualifies for and obtains a suspension or modification from such duty pursuant to Section 251(f)(2) of the TA-96.<sup>94</sup>

Further, the FCC order stated that a state commission could not require an ILEC that is an RBOC to implement intraLATA toll dialing parity outside of the dates established in the FCC order if the state commission had not ordered the RBOC to do so prior to December 19, 1995.

Prior to the release of the FCC order, several interexchange carriers petitioned Commission under Cause No. 40284,<sup>95</sup> to require all ILECs in the state of Indiana to allow 1+/0+ intraLATA toll presubscription on an equal access basis. Attached to the filing was a stipulated agreement showing that the majority of ILECs agreed to provide intraLATA toll dialing on the requested equal access basis, though there were disputed issues relating to the provision of this service that needed to be resolved.

---

<sup>93</sup> FCC 96-333, Second Report and Order and Memorandum Opinion and Order, Released August 8, 1996, In the Matters of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, CC Docket No. 96-98; Interconnection Between Local Exchange Carriers and Commercial Mobile Radio Service Providers, CC Docket No. 95-185; Area Code Relief Plan for Dallas and Houston, Ordered by the Public Utility Commission of Texas, NSD File No. 96-8; Administration of the North American Numbering Plan, CC Docket No. 92-237; and Proposed 708 Relief Plan and 630 Numbering Plan Area Code by Ameritech-Illinois, IAD File No. 94-10.

<sup>94</sup> Section 251(f)(2) of the TA-96, allows that a local exchange carrier with fewer than 2 percent of the nation's subscriber lines installed in the aggregate nationwide may petition a state commission for a suspension or modification of the application of certain requirements imposed on local exchange carriers in the TA-96.

<sup>95</sup> In the Matter of the Petition of AT&T Communications of Indiana, Inc., LCI International Telecom Corp., Sprint Communications Company L.P., and WorldCom, Inc. d/b/a WorldCom For Commission Approval of 1+/0+ MTS on a Presubscribed Basis with Respect to the Provision of their Intrastate IntraLATA Services, dated November 26, 1996.



The Commission, in compliance with the FCC order, resolved the outstanding issues and issued an order in Cause No. 40284 on November 26, 1996. The Commission directed Ameritech Indiana to implement intraLATA toll on an equal access basis at parity with itself in conjunction with its entry into in-region interLATA toll services on or before February 8, 1999. GTE North Inc. and Contel of the South, Inc. were required to provide toll dialing parity as soon as it was technically feasible to do so, or to provide a list of central offices that are incapable of providing this service with an estimated upgrade date. Sprint-United was directed to provide toll dialing parity within six months of the approval of the instant order or a list of those central offices that are incapable of providing this service with an estimated upgrade date. All other ILECs that do not receive a suspension or modification from this duty pursuant to Section 251(f)(2) of the TA-96 must provide toll dialing parity within six months of a bona fide request from a provider of intraLATA toll services.

Since the FCC issued its order mandating intraLATA toll dialing parity, the Eighth Circuit of Appeals<sup>96</sup> found that the FCC was not given this specific authority under Section 251(b)(3)<sup>97</sup> of the TA-96. The Court found that the specific authority to require intraLATA toll dialing parity was left to the states. The Commission, however, determined that portions of the FCC's criteria provided logical solutions to several implementation issues left outstanding in the parties stipulated agreement in Cause No. 40284, and certain such criteria were adopted in the Order.

Since the Commission's Order became effective: GTE has converted 90 percent of its central offices to intraLATA toll dialing parity with the remaining 10 percent to be completed by December 31, 1998; Sprint-United has converted all of its central offices; Frontier Communications of Indiana, Inc., and Frontier Communications of Thorntown, Inc. have converted all of their central offices as well.

---

<sup>96</sup> United States Court of Appeals for the Eighth Circuit, No. 96-3519, No. 96-4080, No. 96-4082, and No. 96-4083, Filed August 22, 1997. Numerous public utility commissions and telecommunication companies challenged the FCC's authority relating to intraLATA toll service.

<sup>97</sup> Section 251(b)(3) of the TA-96 states, "The duty to provide dialing parity to competing providers of telephone exchange service and telephone toll service, and the duty to permit all such providers to have nondiscriminatory access to telephone numbers, operator services, directory assistance, and directory listing, with no unreasonable dialing delays."

## 10. FINANCIAL AND OTHER INDUSTRY STATISTICS

---

As can be seen in Appendices 10-A, 10-B and 10-C, the telecommunication services industry in Indiana represents a market with intrastate gross revenues for 1997 of \$2.42 billion. This represents an increase in revenues of 3.46 percent over the 1996 level and a 26.58 percent increase over the 1993 level. The compound annual growth rate during the 1993-1997 period was 6.07 percent. LEC intrastate operations accounted for \$1.47 billion or 60.58 percent of the telecommunications gross intrastate revenues in 1997. The LEC's share of the total telecommunications industry revenues continued to gradually decrease. For more information, refer to Appendices 10-D, 10-E, 10-F, and 10-G.

Facilities-based IXC's accounted for 13.79 percent of the gross intrastate telecommunications services revenues. AT&T Communications' share of the IXC facilities-based intrastate gross revenues amounted to 68.8 percent in 1997, down from 70.0 percent in 1996 and down from 71.1 percent in 1993.

In reports prior to 1997, we were able to segregate the revenues of other telecommunications companies (resellers, alternative operator services, radio common carriers, cellular and mobile). Because of the diversification of services offered, it is no longer possible to classify a company as providing only one type of service. Consequently, the revenues for these companies have been aggregated into one total in the 1997 and 1998 reports.

As demonstrated by Appendices 10-H and 10-I, Indiana LECs have continued to proceed with modernization programs in their telecommunications networks. As a result of such modernization programs, 91.80 percent of the LECs' access lines are served by fully digital central office (CO) switching equipment; e.g., Northern Telecom DMS100/200 or DMS10 switches. The corresponding portion of access lines served by fully digital CO switching equipment in 1993 was 78.96 percent. The "intermediate" switching technology of electronic analog CO switching equipment; e.g., Western Electric/ATTIS 1AESS and 2AESS switches, is still present at some of the major LECs. In contrast, numerous smaller LECs have replaced their analog and electromechanical switches with fully digital CO switching equipment. Consequently, the proportion of LEC access lines served by electronic analog CO switching equipment dropped from 18.57 percent in 1993 to 7.68 percent in 1997. The "oldest" switching technology, electro-mechanical, is now in use in COs of GTE and its affiliates and serves only 18,226 access lines or .53 percent of total LEC access lines. The additional benefit of investment in fully digital CO switching equipment has been that the proportion of Indiana LEC access lines served by "equal access" COs increased to 99.32 percent in 1997 (under "equal access" end-users are able to reach the networks of their preferred IXC's with simplified dialing such as "1+").

## 11. ACKNOWLEDGEMENTS

---

The Commission appreciates and acknowledges the assistance of the Commission's staff in the preparation of this report. Special thanks goes to the following staff:

*Sandra Ibaugh*  
*Director of Telecommunications*

*Maureen Flood*  
*Senior Telecommunications Analyst*

*Linda Calderone*  
*Secretary*

*Joel Fishkin*  
*Senior Utility Analyst*

*Karl S. Henry*  
*Principal Utility Analyst*

*Pamela Taber*  
*Principal Accountant*

*Helen Caldwell*  
*Senior Utility Analyst*

*Lisa Welton*  
*Secretary*

*Jane Steinhauer*  
*Principal Utility Analyst*

*Stan Sallier*  
*Principal Telecommunications Analyst*

*Michael E. Gallagher*  
*Chief Accountant*

*Nikki Shoultz*  
*Assistant General Counsel*

*Mike Guffey*  
*Senior Telecommunications Analyst*

*Robert C. Glazier*  
*Director of Utilities*

*Jack O'Tain*  
*Senior Telecommunications Analyst*

---

**12. LIST OF ACRONYMS**

---

ACT	Act or Telecommunications Act of 1996
ALEC	Alternative local exchange carrier
AT&T	AT&T Communications, Inc.
BCPM	Benchmark Cost Proxy Model
BLS	Basic Local Service
CBT	Cincinnati Bell Telephone Company
CCL	Carrier Common Line Changes
CLEC	Competitive Local Exchange Carriers
CO	Central Office
Commission	IURC or Indiana Utility Regulatory Commission
CTA	Certificate of Territorial Authority
EAS	Extended Area Service
FCC	Federal Communications Commission
GTE	GTE North, Inc.
ICG	ICG Telecommunications
IHCF	Indiana High Cost Fund or High Cost Fund
ILEC	Incumbent local exchange carrier
IPA	Indiana Payphone Association
IPP	Independent Payphone Provider
IURC	Indiana Utility Regulatory Commission or Commission
IXC	Interexchange carrier
LCP	Local Calling Plan
LEC	Local exchange carrier
LRN	Location Routing Number
LTNP	Long-Term Telephone Number Portability
MCI	MCI Telecommunications Corporation
MSA	Metropolitan Statistical Area
NANC	North American Numbering Council
NANP	North American Numbering Plan
NTS	Non-Traffic Sensitive
PUCO	Ohio Public Utilities Commission
RBOC	Regional Bell Operating Company
PSAP	Public Safety Answering Point
SGAT	Statement of Generally Available Terms and Conditions
Sprint-United	United Telephone

TA-96 ..... Telecommunications Act of 1996 or Act  
TCG ..... TCG Indianapolis  
Time Warner ..... Time Warner Communications of Indiana, L.P.  
TELRIC ..... Total element long-run incremental cost  
UNE ..... Unbundled Network Elements

**13. LIST OF APPENDICES**

---

Appendix 3-A . . Interconnection Agreements

Appendix 3-B . . . Federal District Court Cases as of June 18, 1998

Appendix 3-C . . . Status of Indiana Local Service CTA Requests as of June 15, 1997 (2 pages)

Appendix 5-A . . 1994 Free Subscription Offering Results Through April 30, 1998

Appendix 7-A . . GTE Local Calling Plan

Appendix 10-A . . Intrastate Revenues, 1993 & 1997

Appendix 10-B . . Intrastate Revenues, Industry Comparison

Appendix 10-C . . Telecommunications Intrastate Revenues

Appendix 10-D . . Rate of Return Data - Nine Largest Telephone Companies

Appendix 10-E . . 1997 LEC Total Company Income Statement Data

Appendix 10-F . . 1996 LEC Total Company Income Statement Data

Appendix 10-G . . Total Income Statement Data - Four Largest LECs

Appendix 10-H . . Total Switched Access Lines by Type of Central Office Switch

Appendix 10-I . . Total Switched Access Lines by Type of Central Office Switch and Equal Access

# INTERCONNECTION AGREEMENTS

APPENDIX 3-A

Page 1 of 4

Cause Number	Companies	Commissioner/ ALJ	Staff	Contract Filed	Final Order
40571-INT-01 1st Amendment	ATT/AIT		Fishkin	12/12/97	3/12/98
40572-INT-01	MFS/AIT	Klein/Beall	Ibaugh		10/31/96
40572-INT-02	Time Warner/AIT	Klein	Ibaugh		11/12/96
40572-INT-03	360/AIT	Mueller	O'Tain	2/3/97	4/16/97
40572-INT-04	US Cellular/AIT	Mueller	Sallier	2/12/97	5/8/97
40572-INT-05	SWBT Cell/AIT	Mueller	O'Tain	2/21/97	4/16/97
40572-INT-06	BellSouth CMRS/AIT	Mueller	Sallier	3/5/97	5/28/97
40572-INT-07	GTE Mobilnet/AIT	Mueller	O'Tain	3/5/97	5/28/97
40572-INT-08	AIT Mobile/AIT	Mueller	Guffey	3/19/97	6/11/97
40572-INT-09	ATT Wireless/AIT	Mueller	O'Tain	4/11/97	7/2/97
40572-INT-10	One Comm Corp/AIT	Mueller	O'Tain	5/2/97	7/30/97
40572-INT-11	LCI/AIT	Mueller	O'Tain	5/20/97	8/13/97
40572-INT-12	Network Access/AIT	Mueller	O'Tain	6/6/97	8/27/97
40572-INT-13	Sprint Spectrum/AIT	Mueller	O'Tain	6/13/97	9/10/97
40572-INT-14	AIT/AIT Illinois - EAS	Mueller	Ibaugh	6/30/97	9/10/97
40572-INT-15	AIT/BellSouth - EAS	Mueller	Ibaugh	6/30/97	9/10/97
40572-INT-16	AIT/GTE - EAS	Mueller	Ibaugh	6/30/97	9/17/97
40572-INT-17	American Comm/AIT	Mueller	O'Tain	7/11/97	10/8/97
40572-INT-18	Millennium Group/AIT	Mueller	O'Tain	7/15/97	10/8/97
40572-INT-19	Consolidated Comm/AIT	Mueller	Fishkin	8/20/97	11/5/97
40572-INT-20	KMC Telecom/AIT	Mueller	Fishkin	8/21/97	11/5/97
40572-INT-21	GTE Comm Corp/AIT	Mueller	O'Tain	8/22/97	11/19/97
40572-INT-22	US Xchange/AIT	Mueller	Fishkin	9/2/97	11/25/97
40572-INT-23	Intermedia/AIT	Mueller	Sallier	8/28/97	11/25/97
40572-INT-24	CIMCO Comm/AIT	Mueller	Fishkin	9/15/97	12/2/97
40572-INT-25	Centennial Cellular/AIT	Mueller	Fishkin	9/30/97	12/11/97
40572-INT-26	Midcom Comm/AIT	Mueller	Fishkin	10/3/97	12/23/97
40572-INT-27	MFS Intelenet/AIT	Mueller	Fishkin	10/17/97	1/14/98
40572-INT-28	Frontier Telemgt/AIT	Mueller	Fishkin	11/4/97	1/14/98

# INTERCONNECTION AGREEMENTS

APPENDIX 3-A

Page 2 of 4

Cause No.	Companies	Commissioner/ ALJ	Staff	Contract Filed	Final Order
40572-INT-29	Louisville Lightwave/AIT	Mueller	Fishkin	12/2/97	1/14/98
40572-INT-30	USWest/AIT	Mueller	Fishkin	12/23/97	2/11/98
40572-INT-31	Annox/AIT	Mueller	Fishkin	1/6/98	4/5/98
40572-INT-32	LCI/AIT	Mueller	Henry	3/23/98	6/17/98
40572-INT-33	AIT Mobile/AIT	Mueller	Fishkin	4/2/98	6/30/98
40572-INT-34	MFS/AIT	Mueller	Henry	4/2/98	6/30/98
40572-INT-35	Focal Comm/AIT	Mueller	O'Tain	4/3/98	6/24/98
40572-INT-36	Net-Tel/AIT		Henry	6/17/98	9/14/98
40572-INT-37	Digital Teleport/AIT		Fishkin	6/17/98	9/14/98
40737-INT-01	360/GTE	Gray	Guffey	1/22/97	4/16/97
40737-INT-02	ICG/GTE	Gray	Sallier	2/6/97	5/6/97
40737-INT-03	BellSouth CMRS/GTE	Gray	Guffey	3/17/97	5/20/97
40737-INT-04	ATT Wireless/GTE	Mueller	Guffey	5/1/97	7/16/97
40737-INT-05	Sprint Spectrum/GTE	Mueller	Guffey	6/5/97	8/19/97
40737-INT-10	GTE Mobilnet/GTE	Mueller	Guffey	12/5/97	Dismissed
40737-INT-11	Centennial Cellular/GTE	Mueller	Guffey	1/6/98	4/1/98
40737-INT-12	AIT Wireless/GTE	Mueller	Guffey	1/6/98	4/1/98
40737-INT-13	Local Line/GTE	Mueller	Guffey	1/26/98	4/22/98
40737-INT-14	AIT Mobile/GTE	Gray	Guffey	3/27/98	5/20/98
40737-INT-15	Dakota Svcs/GTE		Guffey	4/16/98	7/14/98
40912-INT-01	360/UTC	Gray	Sallier	7/14/97	10/22/97
40912-INT-01 1st Amendment	360/UTC	Gray	Sallier	2/19/98	4/8/98
40912-INT-02	GTE Mobilnet/UTC		O'Tain	10/6/97	12/30/97
40912-INT-03	Centennial Cellular/UTC		O'Tain	1/23/98	4/22/98
40912-INT-04	Primeco Personal Comm/UTC	Mueller	Henry	3/3/98	incomplete/ on hold
41088-INT-01	Cincinnati Bell/MCI	Gray	Fishkin	11/20/97	2/11/98
41088-INT-02	UTC/MCI		Fishkin	3/3/98	5/7/98
41088-INT-03	ICG/CBT	waiting on motion		6/24/98	9/21/98



# INTERCONNECTION AGREEMENTS

APPENDIX 3-A

Page 3 of 4

Cause Number	Companies	Commissioner/ ALJ	Staff	Arbitration Order	Contract Filed	Recon Order	Final Order
40559	TCG/AIT	Klein/Miller	Ibaugh	11/8/96		N/A	1/9/97
40571-INT-01	ATT/AIT	Huffman/Miller	O'Tain	11/27/96		1/27/97	3/26/97
40571-INT-02	ATT/GTE	Huffman/Miller	Guffey	12/12/96	2/7/97	3/17/98	
40603-INT-01	MCI/AIT	Ziegner/Jones	Sallier	12/18/96		5/7/98	
40603-INT-02	MCI/GTE	Klein/Gray	Sallier	1/3/97	2/4/97	on hold	
40603-INT-03	MCI/CBT				changed to	41088-INT-01	2/11/98
40625-INT-01	Sprint/AIT	Ziegner/Mueller	O'Tain	1/15/97	3/17/97		4/11/97
40625-INT-02	Sprint/GTE	Hull/Gray	Guffey	1/15/97	2/17/97	on hold	
40746-INT-01	ICG/CBT	Gray	Sallier	on hold	[Awaiting PUCO]		
40792-INT-01	ICG Telecom/GTE	Gray	Sallier	7/9/97	Stip filed 4/14/97	on hold	
40787-INT-01	Intermedia/AIT	Miller	Sallier	7/2/97	Dismissed		10/8/97
40832-INT-01	KMC Telecom/GTE	Klein/Gray	Guffey	2/11/98	no contract		
41034-INT-01	USXchange/GTE	Gray	Guffey	2/11/98	3/13/98		auto approve
41054-INT-01	Smithville/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-02	Bloomingtondale/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-03	Central Indiana	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-04	Citizens Tel	Jones	Fishkin Ibaugh	2/27/87	Dismissed		4/1/98
41054-INT-05	Clay County	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-06	Craigville/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-07	Daviess- Martin/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-08	Frontier/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-09	Geetingsville/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-10	Hancock Rural/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-11	Merchants & Farmers/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-12	Mulberry/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-13	New Lisbon/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-14	Northwestern/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-15	Perry- Spencer/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-16	Swayzee/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-17	Sweetzer/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-18	TDS Telecom/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98

# INTERCONNECTION AGREEMENTS

Cause Number	Companies	Commissioner/ ALJ	Staff	Arbitration Order	Contract Filed	Recon Order	Final Order
41054-INT-19	Tri-County/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-20	Washington County/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41054-INT-21	West Point/AIT	Jones	Fishkin Ibaugh	2/27/98	Dismissed		4/1/98
41076-INT-01	LCI/AIT	Mueller	O'Tain	4/3/98	Dismissed		4/1/98
Cause Number	Companies	Commissioner/ ALJ	Staff	Date Filed	Final Order	Recon Order	Final Order
41097	Time Warner/AIT	Klein/Jones	Fishkin Ibaugh	1/5/98			
Cause Number	Companies	Commissioner/ ALJ	Staff	Order	Recon Order	Tariff Filed	Approved
39983	AIT	Mueller	Fishkin	12/18/96	10/8/97	10/27/97	10/27/97
39983	GTE	Mueller	Sallier	12/18/96	10/8/97	12/3/98	12/19/97

**IURC CASES - FEDERAL DISTRICT COURT****As of June 18, 1998**

Indiana Bell Telephone Company, Inc., d/b/a Ameritech Indiana v. John F. Mortell, Chairman; Mary Jo Huffman, Commissioner; G. Richard Klein, Commissioner; Camie Swanson-Hull, Commissioner; David Ziegner, Commissioner (In Their Official Capacities as Commissioners of the Indiana Utility Regulatory Commission), and AT&T Communications of Indiana, Inc., U.S. District Court, Southern District of Indiana, Cause No. IP97-0662C. Appeal of IURC Order No. 40571-INT-01.

**SUMMARY OF IURC ORDER:** In response to the interconnection mandates of TA-96, Ameritech and AT&T engaged in interconnection negotiations which were not entirely successful. The parties submitted to arbitration of certain unresolved issues and the Commission issued its Arbitration Decision on November 27, 1996. Ameritech sought reconsideration of several issues decided by the Arbitration Decision, which the Commission denied. On January 27, 1997, the Commission approved the parties' agreement in its Agreement Review Decision. The Commission approved the executed Agreement in its Final Order entered March 26, 1997.

**ISSUE(S) ON APPEAL:** In its Complaint for Declaratory and Other Relief, Ameritech alleges the following errors in the Commission's Final Order: (1) The Commission's adoption of AT&T's anti-publicity clause as part of the Agreement violates Ameritech's rights under the First Amendment to the U.S. and Indiana Constitutions by unlawfully prohibiting Ameritech from truthful advertising of lawful services; (2) The Commission's determination that Ameritech must provide the unbundled element platform without Operator Services/Directory Assistance on a standard basis and its refusal to ensure appropriate compensation to Ameritech as part of this obligation are inconsistent with the requirements of § 251(c)(3) of TA-96, the Regulations, and the FCC's First Report and Order; (3) The Commission's determination that Ameritech must provide interim number portability using RI-PH in addition to other methods and its refusal to adopt a mechanism to ensure appropriate compensation to Ameritech are inconsistent with § 251(b)(2) of TA-96 and the Regulations and FCC's First Report and Order implementing that provision; (4) The Commission's adoption of AT&T's definitions of "poles, ducts, conduits, and rights-of-way" and of the types of equipment that AT&T may attach to Ameritech's structure violates § 251(b)(4) of TA-96 and the Regulations and FCC's First Report and Order implementing that provision and the Commission's decision effects a taking of Ameritech's property within the meaning of the Fifth and Fourteenth Amendments; (5) The Commission's determination that AT&T's proposed performance standards should be made part of the Agreement and its refusal to require adequate compensation for any enhanced level of service provided to AT&T under those performance standards are inconsistent with §§ 251(c)(2) and (3) of the Act, as well as the Regulations and the FCC's First Report and Order implementing those provisions; and (6) The Commission's determination to always use the shorter time frame in any dispute, unless it specifically found otherwise, is inconsistent with the Act and the Regulations and is arbitrary and capricious, an abuse of discretion, contrary to law, and not supported by the record.

**LATEST COURT ACTION:** Ameritech filed the Complaint for Declaratory & Other Relief on April 25, 1997. The Indiana Attorney General's Office filed a Motion to Dismiss arguing that, because the State has not consented to suit in this action and Congress did not abrogate the State's immunity in passing TA-96, the plaintiffs are barred by the 11th Amendment of the U.S. Constitution from suing the State of Indiana in federal district court. The parties have finished the briefing process and are awaiting a decision from the Court. As of June 1998, no decision has been issued.

Indiana Bell Telephone Company, Incorporated d/b/a Ameritech Indiana v. Smithville Telephone Company, Inc., et al., U.S. District court, Southern District of Indiana, Cause No. IP98-0593-C-M/S. Appeal of IURC Order No. 41054-INT-1 through -21 and Cause No. 40895.

**SUMMARY OF IURC ORDER:** At issue in the case was the continued effectiveness of Extended Area Service ("EAS") Agreements between Ameritech and 21 adjacent incumbent local exchange carriers. Smithville filed a petition for an IURC investigation of the cancellation of EAS agreements by Ameritech, and Ameritech filed 21 separate petitions for arbitration of the agreements, claiming that EAS agreements are subject to Section 251 of TA-96. The Commission dismissed Ameritech's requests for arbitration because they were requested at a time when suspensions pursuant to section 251(f)(2) of TA-96 were in place. The Commission found that converting EAS arrangements to the type Ameritech sought through reciprocal compensation would force certain ILECS to seek substantial rate increases which the Universal Service Fund ("USF") was designed to eliminate. The Commission found that, until the Commission's USF investigation is complete, it is impossible to establish replacement agreements based on cost-based reciprocal compensation for the existing EAS agreements. The Commission ordered the ILECS who responded to Ameritech's arbitration request to make proposals for an interim replacement of existing EAS arrangements.

**ISSUE(S) ON APPEAL:** Although briefs have not been filed, Ameritech's 24 page complaint asks that the court: (1) declare that pre-1996 agreements approved and continued in effect by the IURC are in violation of §§ 251 and 252 of TA'96; (2) declare the IURC orders are in derogation of the IURC's responsibilities under §252 of TA-96; (3) declare that the provisions of the IURC's orders unlawfully denied Ameritech its federal right to arbitrate the terms of interconnection agreements with the incumbent local exchange companies ("ILECs"); (4) enjoin the ILECs from enforcing any provisions of the pre-1996 agreements that are inconsistent with the declaratory relief sought by Ameritech; (5) issue an injunction requiring the IURC to approve the interconnection agreements proposed by Ameritech; and (6) award Ameritech damages for the subsidies already paid by Ameritech to the ILECs and the reciprocal compensation to which Ameritech is entitled since August 29, 1997.

**LATEST COURT ACTION:** Ameritech filed its complaint on May 1, 1998. The Indiana Attorney General's office entered an appearance on behalf of the IURC and has requested an enlargement of time within which to file a brief.

Indiana Bell Telephone Company, Incorporated d/b/a Ameritech Indiana v. Sprint Communications Company, L.P., and John Mortell, Chairman; Mary Jo Huffman, Commissioner; G. Richard Klein, Commissioner; Camie Swanson-Hull, Commissioner; and David Ziegner, Commissioner; (In Their Official Capacities as Commissioners of the Indiana Utility Regulatory Commission). U.S. District Court, Southern District of Indiana, Cause No. IP97-755. Appeal of IURC Order No. 40625-INT-01.

**SUMMARY OF IURC ORDER:** In response to the interconnection mandates of TA-96, Ameritech and Sprint engaged in interconnection negotiations which were not entirely successful. The parties submitted to arbitration certain unresolved issues and stipulated that, as to certain issues, they would be bound to the decision of the Commission in the arbitration proceeding between Ameritech and AT&T. The Commission issued its Arbitration Decision as between Ameritech and Sprint on January 9, 1997. Ameritech sought reconsideration of several issues

decided by the Arbitration Decision, which the Commission denied. On April 11, 1997, the Commission approved the parties' agreement in its Final Order. Ameritech and Sprint subsequently entered into a second stipulation reconfirming and expanding upon their stipulation concerning the AT&T/Ameritech arbitration.

**ISSUE(S) ON APPEAL:** In its Complaint for Declaratory & Other Relief, Ameritech contends that the provisions of the Agreement which call for Ameritech to make available to Sprint any promotional offering of 90 days duration or less at the same rate that Ameritech charges its own end user customers and to provide two days advance written notice to Sprint of the terms and conditions of any promotional offerings violates §§ 251 and 252 of TA-96. Ameritech claims that the FCC has specifically found that short-term promotions are not part of an incumbent LEC's resale obligations under either § 251(c)(4) or § 251(b)(1) of TA-96. Additionally, Ameritech claims that the promotional discount provision has been arbitrated between Ameritech and Sprint in five states in the Ameritech region, and the IURC is the only commission that determined the issue in Sprint's favor. Ameritech seeks declaratory and injunctive relief and states that the promotional discount provision will cause Ameritech injuries which include lost revenues, lost customers, and lost goodwill.

**LATEST COURT ACTION:** In its October 15, 1997 order in Cause No. 39983, the Commission vacated all duties and obligations of incumbent LECs regarding their wholesale discount of short term promotions. This may have an impact on the settlement of this case. As of June 19, 1998, the settlement negotiations are proceeding, and no briefing schedule has been set.

## STATUS OF INDIANA LOCAL SERVICE CTA REQUESTS AS OF 6/15/97

1	Access Network Services, Inc.	Yes	40651	10/18/96	1/15/97	No	---	---	---
2	Alternate Communications Technology, Inc.	Yes	40979	9/9/97	11/5/97	No	---	---	---
3	Ameritech Communications, Inc.	Yes	40671	11/4/96	Dismissed	No	---	---	---
4	Annox, Inc.	Yes	40908	7/2/97	8/27/97	No	---	---	---
5	AT&T Communications of Indiana, Inc.	Yes	40415	2/28/96	9/5/96	Yes	40652	10/22/96	5/8/97
6	Atlas Communications, Ltd.	Yes	40883	6/5/97	8/27/97	No	---	---	---
7	BellSouth BSE, Inc.	Yes	40948	8/13/97	10/8/97	No	---	---	---
8	Cable & Wireless, Inc.	Yes	40942	8/6/97	10/8/97	No	---	---	---
9	CIMCO Communications, Inc.	Yes	40873	5/23/97	8/6/97	No	---	---	---
10	Cincinnati Bell Long Distance, Inc.	Yes	41026	10/22/97	12/11/97	No	---	---	---
11	Coast To Coast Telecommunications, Inc.	Yes	40782	3/6/97	9/10/97	No	---	---	---
12	Columbia Telecommunications, Inc.	Yes	41161	4/24/98	6/10/98	Yes	41160	4/24/98	Pending
13	Comm South Companies, Inc.	Yes	41112	1/16/98	Pending	No	---	---	---
14	Communications Products, Inc.	Yes	40642	10/8/96	2/5/97	Yes	40829	4/15/97	8/27/97
15	Communications Venture Corporation	Yes	41183	5/28/98	Pending	Yes	41183	5/28/98	Pending
16	Comteck of Indiana, Inc.	Yes	40841	4/22/97	7/2/97	No	---	---	---
17	Consolidated Communications Telecom Services Inc.	Yes	40562	7/17/96	3/5/97	Yes	40562	7/17/96	3/5/97
18	Diversified Communication Services, LLP, d/b/a First Choice Communications	Yes	41152	3/31/98	5/20/98	No	---	---	---
19	Diversified Communications, Inc.	Yes	40853	5/6/97	7/9/97	Yes	40949	8/13/97	12/11/97
20	Easton Telecom Services, Inc.	Yes	40900	6/26/97	9/10/97	No	---	---	---
21	Excel Telecommunications, Inc.	Yes	40507	6/12/96	6/11/97	No	---	---	---
22	Focal Communications Corporation of Illinois	Yes	40958	8/20/97	1/28/98	Yes	40958	8/20/97	1/28/98
23	Frontier Telemanagement Inc.	Yes	41062	11/13/97	12/23/97	No	---	---	---
24	GE Capital Communication Services Corporation	Yes	40624	9/20/96	3/26/97	No	---	---	---
25	Golden Harbor of Indiana, Inc.	Yes	40878	6/2/97	8/27/97	No	---	---	---
26	Group Long Distance, Inc.	Yes	41014	10/10/97	12/11/97	No	---	---	---
27	GTE Communications Corp. (formerly GTE Card Services)	Yes	40831	4/16/97	8/19/97	No	---	---	---
28	ICG Telecom Group, Inc.	Yes	40644	10/10/96	5/14/97	Yes	40644	10/10/96	5/14/97
29	Intermedia Communications, Inc.	Yes	40667	11/1/96	3/20/97	Yes	40666	11/1/96	5/28/97
30	KMC Telecom II, Inc. (formerly KMC Telecom, Inc.)	Yes	40661	10/29/96	3/20/97	Yes	40663	10/29/96	5/14/97
31	LCI International Telecom Corp.	Yes	40438	3/29/96	2/19/97	Yes	41178	5/26/98	Pending
32	LDM Systems, Inc.	Yes	40872	5/22/97	7/30/97	No	---	---	---
33	Local Line America, Inc.	Yes	40712	12/17/96	8/6/97	No	---	---	---
34	McImetro Access Transmission Services, Inc.	Yes	40818	4/8/97	5/28/97	Yes	40875	5/28/97	12/2/97
35	McLeod USA Telecommunications Services, Inc.	Yes	40981	9/9/97	11/5/97	No	---	---	---
36	MiComm Services, Inc.	Yes	40996	9/23/97	12/11/97	No	---	---	---
37	Microwave Services, Inc. <sup>1</sup>	Yes	40738	4/21/97	7/30/97	Yes	40738	4/21/97	7/30/97
38	Midwest Telecom of America, Inc.	Yes	40669	11/4/96	1/23/97	No	---	---	---

## STATUS OF INDIANA LOCAL SERVICE CTA REQUESTS AS OF 6/15/97

39	Millennium Group Telemanagement, LLC	Yes	40773	3/3/97	4/30/97	No	---	---	---
40	North American Telecommunications Corp.	Yes	41035	10/27/97	1/28/98	Yes	41035	10/27/97	Withdrawn
41	NOW Communications, Inc.	Yes	41181	5/27/98	Pending	No	---	---	---
42	OmniCall, Inc.	Yes	41171	5/11/98	Pending	No	---	---	---
43	One Call Communications, Inc.	Yes	40675	11/8/96	1/23/97	No	---	---	---
44	Paramount Wireless Communications of Indiana, LLC	No	---	---	---	Yes	40616	9/16/96	Dismissed
45	Preferred Carrier Services, Inc.	Yes	40723	12/31/96	3/5/97	No	---	---	---
46	Quick-Tel Communications, Inc.	Yes	41170	5/8/98	Pending	No	---	---	---
47	Quintelco, Inc.	Yes	41008	9/30/97	12/11/97	No	---	---	---
48	Shared Telcom Services, Inc.	Yes	41043	10/31/97	1/28/98	No	---	---	---
49	SIGECOM, LLC	Yes	41172	5/15/98	Pending	Yes	41172	5/15/98	Pending
50	Southall Investors, Inc.	Yes	41177	5/22/98	Pending	No	---	---	---
51	Southeastern Indiana Rural Telephone Cooperative	No	---	---	---	Yes	41192	6/4/98	Pending
52	Sprint Communications Company, L.P.	Yes	40505	6/11/96	6/11/97	Yes	40505	6/11/96	8/13/97
53	Starcomm America, Inc.	Yes	40657	10/28/96	1/8/97	No	---	---	---
54	Sterling International Funding, Inc.	Yes	40865	5/19/97	3/25/98	No	---	---	---
55	Swayzee Telephone Company, Inc.	Yes	40805	4/1/97	11/19/97	No	---	---	---
56	Sweetser Telephone Company, Inc.	Yes	41020	10/16/97	Pending	No	---	---	---
57	TCG Indianapolis	Yes	40478	5/8/96	1/23/97	Yes	40478	5/8/96	1/23/97
58	Telco Holdings, Inc. (formerly Dial & Save of Indiana)	Yes	40503	6/10/96	1/29/97	No	---	---	---
59	Teligent, Inc. <sup>1</sup>	Yes	41096	12/31/97	3/18/98	Yes	41096	12/31/97	3/18/98
60	Tel-Link, L.L.C.	Yes	41016	10/11/97	4/1/98	No	---	---	---
61	Tel-Save, Inc.	Yes	40847	4/29/97	Pending	No	---	---	---
62	Time Warner Communications of Indiana, L.P.	Yes	40825	4/14/97	6/25/97	Yes	40826	4/14/97	6/25/97
63	UniDial Communications, Inc.	Yes	41158	4/20/98	Pending	No	---	---	---
64	US Tel Corporation	Yes	40989	9/19/97	2/4/98	No	---	---	---
65	U.S. Telco, Inc.	Yes	40817	4/7/97	8/27/97	No	---	---	---
66	U S WEST Interprise America, Inc.	Yes	40706	2/27/97	Vacated	Yes	40706	5/7/97	12/11/97
67	US Xchange of Indiana, L.L.C.	Yes	40779	3/4/97	5/8/97	Yes	40780	3/4/97	7/30/97
68	USLD Communications, Inc. (formerly U.S. Long Distance, Inc.)	Yes	40903	6/26/97	8/27/97	No	---	---	---
69	USN Communications Midwest, Inc.	Yes	40961	8/22/97	10/8/97	No	---	---	---
70	WinStar Wireless of Indiana, Inc.	Yes	40772	3/3/97	5/8/97	Yes	40771	3/3/97	7/30/97
71	WorldCom Technologies, Inc. (formerly MFS Intelenet of IN)	Yes	40491	5/21/96	3/5/97	Yes	40491	5/21/96	3/5/97
72	Wright Businesses, Inc.	Yes	41157	4/20/98	Pending	No	---	---	---

Note 1: Microwave Services, Inc., transferred its existing local authority to Teligent, Inc., in Cause No. 41096, on March 18, 1998. Teligent, Inc., did not have local authority prior to this transfer.

FREE SUBSCRIPTION OFFERING RESULTS THROUGH APRIL 30, 1998

	NUMBER OF ACCOUNTS			
	1994	1995	1996	1997
Total New Connects	1,516	237	175	532
				2,460

DISCONNECTS - CUSTOMER REQUESTED						PERCENT OF TOTAL DISCONNECTS					PERCENT OF TOTAL SUBSCRIBERS				
Reason	1994	1995	1996	1997	Total	1994	1995	1996	1997	Total	1994	1995	1996	1997	Total
Can Not Afford	23	4	0	2	29	1.82%	2.27%	0.00%	1.60%	1.17%	1.52%	1.69%	0.00%	0.38%	1.18%
Disaster	8	4	0	0	12	0.64%	2.27%	0.00%	0.00%	0.11%	0.53%	1.69%	0.00%	0.00%	0.49%
Moving	189	36	15	26	266	14.96%	20.46%	20.83%	20.80%	19.15%	12.47%	15.19%	8.57%	4.89%	10.81%
No Further Use	125	22	4	17	168	9.90%	12.50%	5.56%	13.60%	10.73%	8.25%	9.28%	2.29%	3.20%	6.83%
Total Disconnects - Customer Requested	345	66	19	45	475	27.12%	31.16%	17.26%	28.00%	26.73%	22.77%	27.85%	10.86%	8.47%	19.31%

DISCONNECTS - AMERITECH ACTION						PERCENT OF TOTAL DISCONNECTS					PERCENT OF TOTAL SUBSCRIBERS				
Reason	1994	1995	1996	1997	Total	1994	1995	1996	1997	Total	1994	1995	1996	1997	Total
Abandoned Service	33	3	2	3	41	2.61%	1.70%	2.78%	2.40%	2.51%	2.18%	1.27%	1.14%	0.56%	1.67%
Fraud	1	2	0	0	3	0.08%	1.14%	0.00%	0.00%	0.11%	0.07%	0.84%	0.00%	0.00%	0.12%
Non Payment	884	105	51	77	1,117	69.99%	59.66%	70.83%	61.60%	60.61%	58.31%	44.30%	29.14%	14.47%	45.41%
Total Disconnects - Ameritech Action	918	110	53	80	1,161						60.56%	46.41%	30.28%	15.03%	47.20%

DISCONNECTS - AMERITECH ACTION						PERCENT OF TOTAL DISCONNECTS					PERCENT OF TOTAL SUBSCRIBERS				
Status	1994	1995	1996	1997	Total	1994	1995	1996	1997	Total	1994	1995	1996	1997	Total
Total Disconnects	1,263	176	72	125	1,636	100.00%	100.00%	100.00%	100.00%	100.00%	83.33%	74.26%	41.14%	23.50%	66.51%
Customers Remaining on the Network	283	61	103	407	824						16.67%	25.74%	58.86%	76.50%	33.49%



## GTE LOCAL CALLING PLAN

### Community Calling Plan

Customers choosing this calling plan pay \$1.08 per month plus applicable per minute usage charges based upon the rate band matrix, distance and the time of day to those exchange areas indicated on the calling scope matrix.

### Community Plus Plan

Customers choosing this calling plan pay \$2.73 per month for unlimited calling to one exchange as indicated on the calling scope matrix. Any additional exchanges the customer may want to call, on an incidental basis, may be called at applicable per minute usage charges based upon the rate band matrix, distance and time of day.

### Premium Plan

Residence customers choosing this calling plan pay \$20.00 per month and business customers pay \$100.00 per month for unlimited flat-rated local calling to all exchanges listed on the calling scope matrix.

The following rates and charges apply:

#### RATE BAND MATRIX

Distance Bands	Airline Miles	Full Rate Period	
		Set-Up	Each Minute
A	1-10	\$0.03	\$0.04
B	11-16	\$0.03	\$0.05
C	17-23	\$0.04	\$0.07
D	24-30	\$0.04	\$0.08

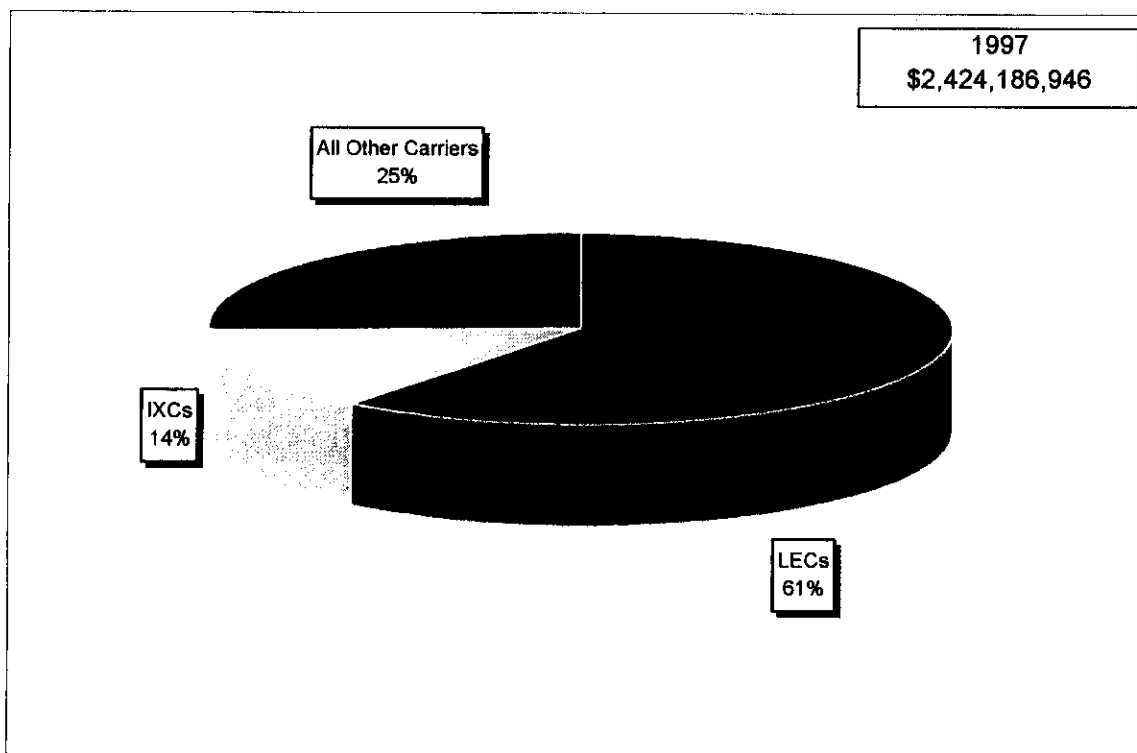
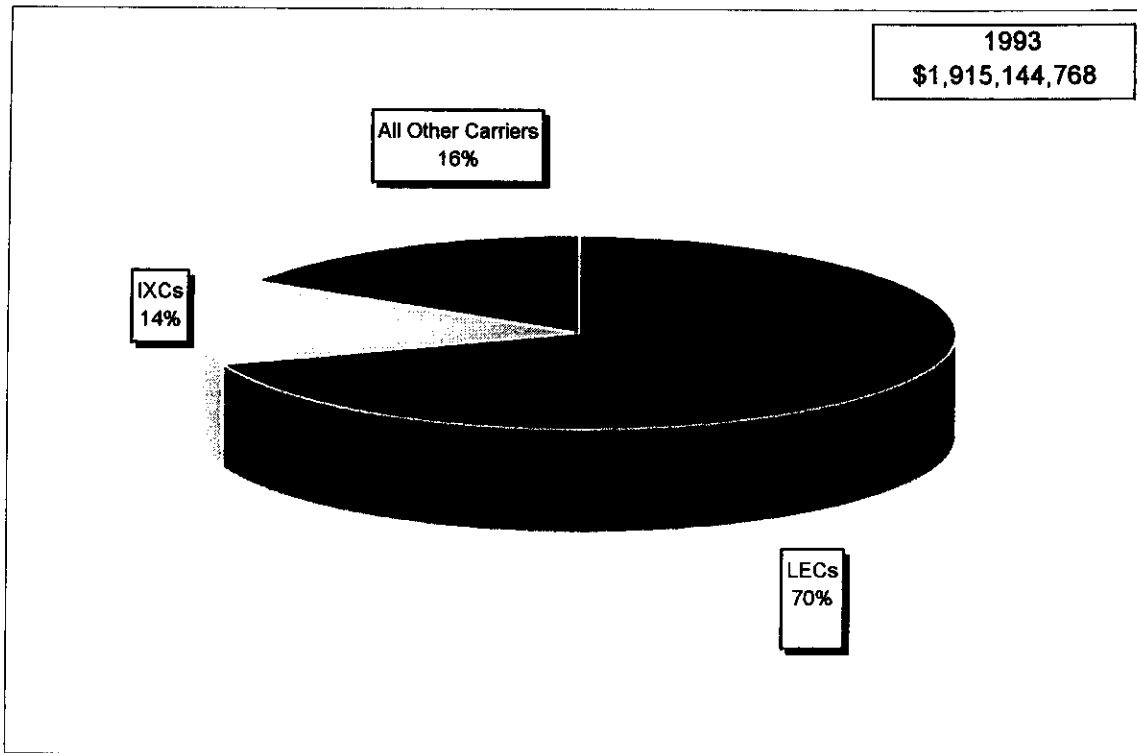
#### LOCAL CALL DETAIL

Per Month - Plus	\$1.50
Each Bill Page	\$0.10

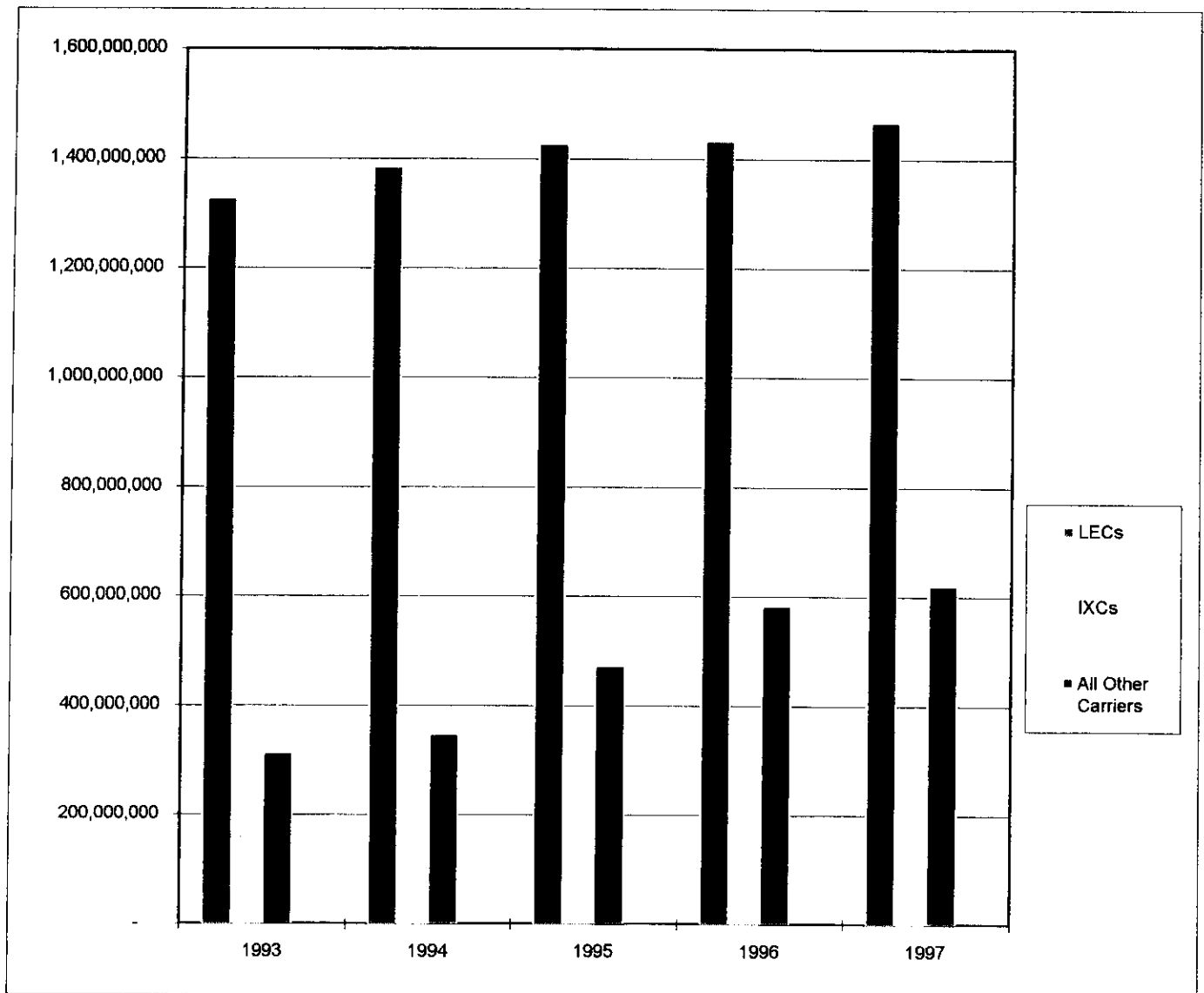
#### DISCOUNTS APPLICABLE

	From	Up to But Not Including	Discount
Every Day	9:00 p.m.	8:00 a.m.	40%
Saturdays, Sundays and Certain Holidays	8:00 a.m.	9:00 p.m.	40%

## Intrastate Revenues 1993 & 1997



## Intrastate Revenues Industry Comparison



	1993	1994	1995	1996	1997
LECs	1,328,673,356	1,386,196,321	1,428,747,275	1,434,165,722	1,468,676,736
IXCs	271,715,387	284,913,121	333,711,341	325,425,744	334,206,748
All Other Carriers	314,756,025	348,738,363	473,869,405	583,612,955	621,303,462
<b>Total</b>	<b>\$ 1,915,144,768</b>	<b>\$ 2,019,847,805</b>	<b>\$ 2,236,328,021</b>	<b>\$ 2,343,204,421</b>	<b>\$ 2,424,186,946</b>

Source: Indiana Utility Regulatory Commission Fee Billing Reports

## TELECOMMUNICATIONS INTRASTATE REVENUES

						COMPOUND ANNUAL RATE
AMERITECH CORP.	\$785,845,638	\$808,475,239	\$828,960,520	\$806,520,926	\$821,650,020	1.12%
BLOOMINGDALE HOME TEL. CO.	135,115	137,111	142,031	180,321	147,361	2.19%
CAMDEN TEL. CO.	705,909	899,859	700,499	764,957	836,209	4.33%
CENTURY TELEPHONE OF CENTRAL IN. (Formerly Central Indiana Telephone Co.)	1,208,904	1,239,812	2,418,462	1,766,411	2,015,083	13.63%
CENTURY TELEPHONE OF ODOM, INC. (Formerly Odom Telephone Co.)	722,103	762,459	1,196,997	914,710	858,357	4.42%
CINCINNATI BELL TEL. CO.	1,775,244	2,023,436	2,084,110	2,191,546	2,629,855	10.32%
CITIZENS TEL. CORP.	955,367	974,921	979,157	1,062,917	1,095,979	3.49%
CLAY COUNTY RURAL TEL.	4,907,790	4,735,364	5,023,313	6,027,976	5,403,836	2.44%
COMMUNIC. CORP. of IN.	4,629,812	4,702,933	5,106,620	5,492,026	5,692,394	5.30%
COMMUNIC. CORP. of S. IN.	995,944	1,060,464	1,115,303	1,115,146	1,160,800	3.90%
CONTEL of the SOUTH, INC.	\$3,493,495	3,429,365	3,586,639	3,673,620	3,784,623	2.02%
CRAIGVILLE TEL. CO.	399,100	379,882	368,265	397,667	443,613	2.68%
DAVISS-MARTIN RURAL TEL. CO.	1,252,165	1,234,797	1,270,774	1,419,616	1,588,670	6.13%
FRONTIER COMM. of IN.	937,487	976,365	899,523	1,006,347	898,290	-1.06%
FRONTIER COMM. of THORNTOWN	835,370	951,599	916,365	956,723	915,211	2.31%
GEETINGSVILLE TEL.	206,755	212,950	215,326	222,608	233,670	3.11%
GTE INDIANA (CONTEL)	74,354,011	73,119,961	75,221,759	77,232,663	79,515,216	1.69%
GTE NORTH	316,741,702	339,646,770	350,953,117	367,692,592	379,502,090	4.62%
HANCOCK RURAL TEL. CO.	2,338,796	2,466,003	2,634,691	2,823,102	3,330,247	9.24%
HOME TEL. CO.	1,134,910	1,134,322	1,139,716	1,269,030	1,284,874	3.15%
HOME TEL. CO. of PITTSBORO	905,188	971,244	1,022,678	1,115,954	1,170,980	6.65%
LIGONIER TEL. CO.	1,642,652	1,241,229	1,229,044	1,243,498	1,358,335	-4.64%
MERCHANTS & FARMERS TEL.	425,131	446,455	472,458	485,782	582,938	8.21%
MONON TEL. CO.	731,220	790,450	797,722	886,650	900,377	5.34%
MULBERRY COOP. TEL. CO.	562,159	674,591	699,877	723,774	803,058	9.33%
NEW LISBON TEL. CO.	375,405	344,082	349,250	355,542	344,465	-2.13%
NEW PARIS TEL. CO.	890,998	1,113,933	1,035,040	1,190,811	1,181,427	7.31%
NORTHWESTERN IN. TEL. CO.	4,946,154	5,501,987	5,789,153	6,949,774	7,260,427	10.07%
PERRY-SPENCER RURAL COOP.	2,200,646	2,302,388	2,762,866	2,501,312	2,857,694	6.75%
PULASKI-WHITE RURAL COOP.	664,408	757,364	784,820	870,708	922,069	8.54%
ROCHESTER TEL. CO.	2,454,443	3,877,000	2,602,913	2,838,294	2,987,631	5.04%
S&W TEL. CO.	152,411	162,055	180,328	188,145	188,844	5.50%
SMITHVILLE TEL. CO.	8,662,959	8,890,799	9,678,018	11,759,380	12,357,917	9.29%
S.EASTERN IN. RURAL TEL.	597,741	636,974	671,220	1,658,959	1,955,799	34.49%
SUNMAN TEL. CO.	1,005,098	1,168,155	1,414,518	1,479,692	1,647,665	13.15%
SWAYZEE TEL. CO.	674,392	525,380	520,960	512,225	480,457	-8.13%
SWEETSER TEL. CO.	613,957	352,183	1,073,284	1,155,699	1,161,223	17.27%
TIPTON TEL. CO.	2,070,898	1,814,584	2,008,876	2,043,888	2,063,933	-0.08%
TRI-COUNTY TEL. CO.	1,459,494	1,534,814	1,544,854	1,702,375	1,828,538	5.80%
UNITED TEL. CO of IN.	92,420,673	102,724,718	107,397,264	109,991,886	111,621,017	4.83%
WASHINGTON CTY. RURAL COOP	877,899	908,942	962,905	1,018,366	1,134,377	6.62%
WEST POINT TEL. CO.	385,230	374,682	276,263	299,317	325,823	-4.10%
YEOMAN TEL. CO.	378,583	518,700	539,777	462,787	555,344	10.05%
<b>ILECs TOTAL</b>	<b>\$1,328,673,356</b>	<b>\$1,386,196,321</b>	<b>\$1,428,747,275</b>	<b>\$1,434,165,722</b>	<b>\$1,468,676,736</b>	<b>2.54%</b>
AT&T COMMUNICATIONS of IN.	\$193,127,256	\$201,262,606	\$227,072,836	\$227,917,982	\$229,946,371	4.46%
CONSOLIDATED COMM. TELECOM SVCS. (1997 figure is estimated)	2,160,348	2,592,418	823,975	1,494,795	1,793,754	-4.54%
LCI INTERNATIONAL TELECOM CORP.	8,307,307	8,396,732	9,617,509	46,370	55,644	-71.39%
MCLEODUSA TELECOMMUNICATIONS SERVICES, INC.					15,863	
MCI TELECOMMUNICATIONS CORP.	46,532,865	50,753,440	68,512,763	62,263,635	61,951,562	7.42%
SPRINT COMMUNICATIONS CO. LTD. (1997 figure is estimated)	21,516,402	21,250,468	23,690,890	28,910,920	34,693,104	12.69%
WORLDCom NETWORK SERVICES, INC. (1996 & 1997 figures are estimated)	71,209	657,457	3,993,368	4,792,042	5,750,450	199.77%
<b>IXCs TOTAL</b>	<b>\$271,715,387</b>	<b>\$284,913,121</b>	<b>\$333,711,341</b>	<b>\$325,425,744</b>	<b>\$334,206,748</b>	<b>5.31%</b>
<b>ALL OTHER TELECOMMUNICATIONS CARRIERS TOTAL</b>	<b>\$314,756,025</b>	<b>\$348,738,363</b>	<b>\$473,869,405</b>	<b>\$563,612,955</b>	<b>\$621,303,462</b>	<b>18.53%</b>
<b>ALL TELCO OPERATIONS TOTAL</b>	<b>\$1,915,144,768</b>	<b>\$2,019,847,805</b>	<b>\$2,236,328,021</b>	<b>\$2,343,204,421</b>	<b>\$2,424,186,946</b>	<b>6.07%</b>

## RATE OF RETURN DATA - NINE LARGEST TELEPHONE COMPANIES

	1992	1993	1994	1995	1996	1997
<b>AMERITECH INDIANA</b>						
Rate Base	\$1,688,124,988	*	*	*	*	*
Net Operating Income	\$194,598,973	*	*	*	*	*
Rate of Return	11.53%	*	*	*	*	*
<b>CONTEL of the SOUTH</b>						
Rate Base	\$10,654,000	\$10,376,000	\$10,721,000	\$10,699,000	\$13,986,000	
Net Operating Income	\$666,000	\$764,000	\$948,000	\$1,487,000	\$912,000	
Rate of Return	6.25%	7.36%	8.84%	13.90%	6.52%	
<b>COMMUNIC. CORP. of IN.</b>						
Rate Base	\$14,279,301	\$16,930,296	\$16,706,225	\$17,657,643	\$18,672,155	
Net Operating Income	\$1,873,288	\$1,926,020	\$2,068,928	\$2,034,041	\$2,309,426	
Rate of Return	13.12%	11.38%	12.38%	11.52%	12.37%	
<b>GTE INDIANA (CONTEL)</b>						
Rate Base	\$145,141,000	\$143,215,000	\$136,528,000	\$139,882,000	\$141,951,000	
Net Operating Income	\$23,712,000	\$28,540,000	\$23,426,000	\$27,435,000	\$29,500,000	
Rate of Return	16.34%	19.93%	17.16%	19.61%	20.78%	
<b>GTE NORTH</b>						
Rate Base	\$803,277,000	\$813,074,000	\$806,403,000	\$792,910,000	\$874,852,000	
Net Operating Income	\$76,324,000	\$97,243,000	\$89,257,000	\$120,922,000	\$116,955,000	
Rate of Return	9.50%	11.96%	11.07%	15.25%	13.37%	
<b>NORTHWESTERN IN. TEL. CO.</b>						
Rate Base	\$9,942,005	\$10,426,893	\$11,002,655	\$14,777,105	\$16,700,421	
Net Operating Income	\$1,646,437	\$1,145,899	\$1,370,012	\$1,285,278	\$1,284,349	
Rate of Return	16.56%	10.99%	12.45%	8.70%	7.69%	
<b>ROCHESTER TEL. CO.</b>						
Rate Base	\$4,803,370	\$4,894,061	\$5,177,051	\$5,299,048	\$6,818,509	
Net Operating Income	\$1,118,081	\$1,080,310	\$1,157,932	\$1,355,113	\$1,306,038	
Rate of Return	23.28%	22.07%	22.37%	25.57%	19.15%	
<b>SMITHVILLE TEL. CO.</b>						
Rate Base	\$23,679,683	\$24,872,821	\$25,592,751	\$25,812,602	\$27,448,122	
Net Operating Income	\$3,000,606	\$3,542,036	\$3,854,736	\$3,372,479	\$3,896,280	
Rate of Return	12.67%	14.24%	15.06%	13.07%	14.20%	
<b>UNITED TEL. CO. of IN. (d/b/a Sprint)</b>						
Rate Base	\$175,884,567	\$174,189,403	\$169,087,324	\$161,378,304	\$151,541,876	
Net Operating Income	\$17,291,563	\$17,564,404	\$24,967,787	\$28,942,234	\$31,608,977	
Rate of Return	9.83%	10.08%	14.77%	17.93%	20.86%	

\* Ameritech is not required to file this information based on the order in Cause No. 39705 dated June 30, 1994, commonly referred to as "Opportunity Indiana".

## 1997 LEC TOTAL COMPANY INCOME STATEMENT DATA

	REVENUE	OPERATING EXPENSES	DEPRECIATION	OTHER INCOME	OTHER EXPENSES
AMERITECH INDIANA	\$1,272,921,000	\$197,829,000	\$153,434,000	\$46,797,000	\$593,166,000
BLOOMINGDALE HOME TEL. CO.	647,870	106,812	149,812	13,139	428,117
CAMDEN TELEPHONE CO.	1,503,737	143,523	234,539	20,232	695,456
CENTURY TEL. OF CENT. IN, INC.	3,585,845	621,924	570,506	127,518	1,023,988
CENTURY TEL. OF ODOM, INC.	1,390,136	271,509	146,524	25,883	617,968
CITIZENS TEL. CORP.	1,908,242	403,752	313,467	43,825	661,790
COMMUNIC. CORP. OF IN.	9,293,081	1,852,395	1,285,772	399,522	3,445,966
COMMUNIC. CORP OF S. IN.	1,841,115	339,426	210,067	67,388	822,587
CONTEL OF THE SOUTH	6,086,000	1,485,000	398,000	224,000	2,609,000
CRAIGVILLE TEL. CO.	760,551	100,849	101,675	12,108	374,631
FRONTIER COMM. OF IN.	1,729,060	122,502	515,508	82,481	424,895
FRONTIER COMM. OF THORNTOWN	1,571,164	200,664	273,848	56,048	655,376
GTE INDIANA (CONTEL)	113,520,000	22,735,000	14,800,000	4,261,000	38,690,000
GTE NORTH	588,950,000	106,468,000	65,461,000	22,579,000	274,152,000
GEETINGSVILLE TEL.	439,110	71,428	49,122	12,955	180,369
HOME TEL. CO. OF PITTSBORO	1,824,459	380,611	257,179	66,812	692,468
HOME TEL. CO.	1,887,621	478,852	209,949	50,006	782,651
LIGONIER TEL. CO.	2,423,615	354,051	337,654	54,855	1,165,992
MERCHANTS & FARMERS TEL.	827,892	93,798	154,831	9,076	272,413
MONON TEL CO.	1,530,860	228,732	212,302	51,309	706,899
NEW LISBON TEL.CO.	711,413	144,705	71,977	16,650	369,234
NEW PARIS TEL. CO.	2,218,597	336,982	112,264	67,419	1,290,162
NORTHWESTERN IN. TEL. CO.	12,680,575	2,139,579	1,163,223	204,734	8,184,504
ROCHESTER TELEPHONE	4,729,437	627,710	833,742	71,325	1,890,622
SMITHVILLE TEL CO.	19,210,232	3,821,604	1,984,408	446,737	9,061,203
SUNMAN TELECOMMUNICATIONS CORPORATION	3,169,360	606,800	301,219	66,696	1,642,282
SWAYZEE TEL. CO.	855,660	153,069	27,416	19,348	591,463
SWEETSER RURAL TELEPHONE	1,234,121	147,854	113,102	22,320	782,015
TIPTON TEL. CO.	3,411,742	489,534	345,838	77,672	1,935,084
TRI-COUNTY TEL. CO.	2,850,347	473,445	155,514	67,104	1,652,173
UNITED TEL. CO. OF IN. (d/b/a Sprint)	179,561,000	32,530,000	17,302,000	5,304,000	91,077,000
WEST POINT TELEPHONE CO.	603,744	62,816	56,792	10,544	341,619
YEOMAN TEL CO.	767,966	134,531	75,480	15,661	430,709
TOTALS	\$2,246,645,552	\$375,956,457	\$261,658,730	\$81,344,367	\$1,040,816,636

## 1996 LEC TOTAL COMPANY INCOME STATEMENT DATA

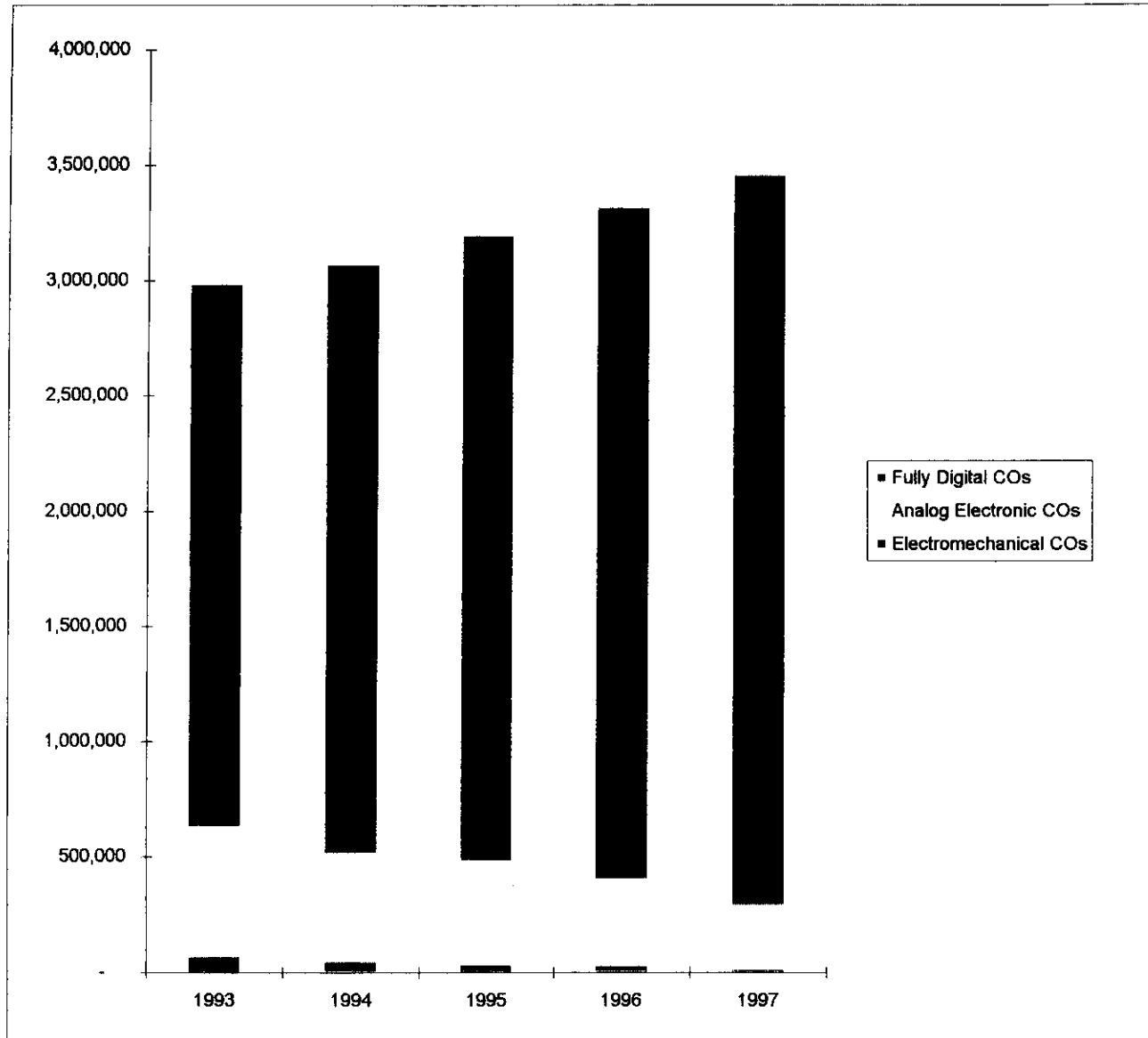
AMERITECH CORP.	\$1,219,154,000	\$210,708,000	\$133,262,000	\$46,374,000	\$584,781,000
BLOOMINGDALE HOME TEL. CO.	634,634	71,109	999,931	13,173	410,363
CAMDEN TELEPHONE CO.	1,350,976	139,228	138,191	25,071	635,641
CENTURY TEL. OF CENT. IN, INC. (Formerly Central Indiana Telephone Co.)	3,395,159	649,203	449,609	81,316	1,097,062
CENTURY TEL. OF ODOM, INC. (Formerly Odom Telephone Co.)	1,305,737	212,092	151,378	13,355	610,045
CITIZENS TEL. CORP.	1,820,657	359,432	299,985	38,150	637,461
COMMUNIC. CORP. OF IN.	8,687,668	1,742,785	1,409,257	220,693	3,280,893
COMMUNIC. CORP OF S. IN.	1,816,685	315,747	243,262	71,091	783,629
CONTEL OF THE SOUTH	5,441,000	1,310,000	127,000	298,000	1,819,000
CRAIGVILLE TEL. CO.	696,620	101,689	73,108	12,528	368,389
FRONTIER COMM. OF IN.	1,761,195	122,435	425,131	74,497	584,177
FRONTIER COMM. OF THORNTOWN	330,326	172,158	229,027	54,818	810,353
GTE INDIANA (CONTEL)	107,646,000	21,982,000	10,589,000	38,888,000	43,246,000
GTE NORTH	555,083,000	104,763,000	43,628,000	19,729,000	275,242,000
GEETINGSVILLE TEL.	409,273	61,499	48,833	9,897	182,596
HOME TEL. CO. OF PITTSBORO	1,736,462	357,533	214,860	70,020	718,170
HOME TEL. CO.	1,857,266	468,210	265,598	28,737	720,519
LIGONIER TEL. CO	2,238,264	353,670		62,142	
MERCHANTS & FARMERS TEL.	792,679	94,693	130,433	7,363	295,988
MONON TEL CO.	1,517,523	219,642	219,848	24,317	713,300
NEW LISBON TEL.CO.	713,991	129,245	98,889	12,766	333,089
NEW PARIS TEL. CO.	2,224,493	319,801	100,840	56,177	1,254,491
NORTHWESTERN IN. TEL. CO.	11,483,923	1,739,231	671,569	191,149	7,652,512
ROCHESTER TELEPHONE	4,627,897	559,992	1,225,718	48,706	1,808,064
SMITHVILLE TEL CO.	17,215,314	3,578,147	1,604,425	357,286	8,302,978
SUNMAN TEL. CO. (1996 Data Not Available)					
SWAYZEE TEL. CO.	946,137	169,497	17,837	42,313	614,710
SWEETSER TEL. CO.	1,239,072	126,201	91,318	15,671	840,379
TIPTON TEL. CO.	3,400,700	442,992	481,076	85,989	1,589,237
TRI-COUNTY TEL. CO.	2,782,235	480,752	226,050	59,293	1,406,651
UNITED TEL. CO. OF IN. (d/b/a Sprint)	173,720,000	30,797,000	15,581,000	6,385,000	90,604,000
WEST POINT TEL. CO.	540,979	87,642	45,937	6,425	305,104
YEOMAN TEL CO.	775,761	126,783	62,440	12,493	427,571
TOTALS	\$2,137,345,626	\$382,761,408	\$213,111,550	\$113,369,436	\$1,032,075,372

## TOTAL INCOME STATEMENT DATA - FOUR LARGEST LECs

	2003	2004	2005	2006	2007	% Change
<b>AMERITECH INDIANA</b>						
Operating Revenues	\$1,116,485,000	\$1,155,605,000	\$1,199,028,000	\$1,219,154,000	\$1,272,921,000	3.33%
Depreciation & Amortization	199,141,000	197,845,000	203,565,000	210,708,000	197,829,000	-0.17%
Income Taxes	90,802,000	30,956,000	120,095,000	133,262,000	153,434,000	14.01%
Taxes Other than Income	44,726,000	46,050,000	42,839,000	46,374,000	46,797,000	1.14%
Other Operating Expenses	579,265,000	682,066,000	600,463,000	584,781,000	593,166,000	0.59%
<b>GTE INDIANA (CONTEL)</b>						
Operating Revenues	\$106,852,000	\$110,103,000	\$106,083,000	\$107,646,000	\$113,520,000	1.52%
Depreciation & Amortization	20,501,000	20,053,000	21,122,000	21,982,000	22,735,000	2.62%
Income Taxes	10,578,000	13,291,000	9,363,000	10,589,000	14,800,000	8.76%
Taxes Other than Income	3,149,000	3,314,000	3,688,000	38,888,000	4,261,000	7.85%
Other Operating Expenses	48,585,000	43,944,000	48,268,000	43,246,000	38,690,000	-5.53%
<b>GTE NORTH</b>						
Operating Revenues	\$451,348,000	\$489,803,000	\$521,292,000	\$555,083,000	\$588,950,000	6.88%
Depreciation & Amortization	92,032,000	99,729,000	101,625,000	104,763,000	106,468,000	3.71%
Income Taxes	25,524,000	37,375,000	33,638,000	43,628,000	65,461,000	26.55%
Taxes Other than Income	17,902,000	19,241,000	20,706,000	19,729,000	22,579,000	5.97%
Other Operating Expenses	246,731,000	244,569,000	283,213,000	275,242,000	274,152,000	2.67%
<b>UNITED TEL. CO. of IN. (d/b/a Sprint)</b>						
Operating Revenues	\$150,374,000	\$157,277,000	\$166,593,000	\$173,720,000	\$179,561,000	4.53%
Depreciation & Amortization	28,895,000	30,470,000	31,103,000	30,797,000	32,530,000	3.01%
Income Taxes	7,369,000	7,711,000	10,601,000	15,581,000	17,302,000	23.79%
Taxes Other than Income	5,655,000	5,809,000	5,897,000	6,385,000	5,304,000	-1.59%
Other Operating Expenses	90,455,000	93,085,000	60,320,000	90,604,000	91,077,000	0.17%
Operating Revenues Total	\$1,825,059,000	\$1,912,788,000	\$1,992,996,000	\$2,055,603,000	\$2,154,952,000	4.24%
Depreciation & Amortization Total	340,569,000	348,097,000	357,415,000	368,250,000	359,562,000	1.37%
Income Taxes Total	134,273,000	89,333,000	173,697,000	203,060,000	250,997,000	16.93%
Taxes Other than Income Total	71,432,000	74,414,000	73,130,000	111,376,000	78,941,000	2.53%
Other Operating Expenses Total	965,036,000	1,063,664,000	992,264,000	993,873,000	997,085,000	0.82%



## Total Switched Access Lines by Type of Central Office Switch



	1993	1994	1995	1996	1997
Electromechanical COs	73,832	51,715	35,922	33,100	18,226
Analog Electronic COs	555,002	456,080	441,379	363,802	265,972
Fully Digital COs	2,360,269	2,566,387	2,724,452	2,928,422	3,180,329
<b>Tot. Switched Acc. Lines</b>	<b>2,989,103</b>	<b>3,074,182</b>	<b>3,201,753</b>	<b>3,325,324</b>	<b>3,464,527</b>

Note: Excludes Washington County RTC

TOTAL SWITCHED ACCESS LINES BY TYPE OF CENTRAL OFFICE SWITCH & EQUAL ACCESS (As of 12/31/97)

NAME	LINE	PERCENT	LINE	PERCENT	LINE	PERCENT	LINE	PERCENT
AMERITECH INDIANA		0.00%	264,054	12.19%	1,902,469	87.81%	2,166,523	100.00%
BLOOMINGDALE HOME TEL. CO.		0.00%		0.00%	577	100.00%	577	100.00%
CAMDEN TEL. CO.		0.00%		0.00%	493	100.00%	493	100.00%
CENTURY TEL. OF CENTRAL IN, INC		0.00%		0.00%	3,306	100.00%	3,306	100.00%
CENTURY TEL. OF ODOM, INC.		0.00%		0.00%	1,669	100.00%	1,669	100.00%
CITIZENS TEL. CORP.		0.00%		0.00%	2,364	100.00%	2,364	100.00%
CLAY COUNTY RURAL TEL.		0.00%		0.00%	11,255	100.00%	11,255	100.00%
COMMUNIC. CORP. of IN.		0.00%		0.00%	10,212	100.00%	10,212	100.00%
COMMUNIC. CORP. of S. IN.		0.00%		0.00%	2,037	100.00%	2,037	100.00%
CONTEL of THE SOUTH	488	4.78%		0.00%	9,721	95.22%	9,509	93.14%
CRAIGVILLE TEL. CO.		0.00%		0.00%	906	100.00%	906	100.00%
DAVIESS-MARTIN RURAL		0.00%		0.00%	3,108	100.00%	3,108	100.00%
FRONTIER COMM. of IN		0.00%		0.00%	2,469	100.00%	2,469	100.00%
FRONTIER COMM. of THORNTOWN		0.00%		0.00%	2,556	100.00%	2,556	100.00%
GEETINGSVILLE TEL.		0.00%		0.00%	508	100.00%	508	100.00%
GTE INDIANA (CONTEL)	5,930	3.33%		0.00%	172,383	96.67%	171,773	96.33%
GTE NORTH	11,808	1.61%		0.00%	721,136	98.39%	716,666	97.78%
HANCOCK RURAL		0.00%		0.00%	6,561	100.00%	6,561	100.00%
HOME TEL. CO.		0.00%		0.00%	2,237	100.00%	2,237	100.00%
HOME TELEPHONE of PITTSBORO		0.00%		0.00%	2,278	100.00%	2,278	100.00%
LIGONIER TEL. CO.		0.00%		0.00%	2,612	100.00%	2,612	100.00%
MERCHANTS & FARMERS TEL.		0.00%		0.00%	539	100.00%	539	100.00%
MONON TEL. CO.		0.00%	1,918	100.00%		0.00%	1,918	100.00%
MULBERRY		0.00%		0.00%	2,675	100.00%	2,675	100.00%
NEW LISBON		0.00%		0.00%	819	100.00%	819	100.00%
NEW PARIS TEL. CO.		0.00%		0.00%	1,989	100.00%	1,989	100.00%
NORTHWESTERN IN. TEL. CO.		0.00%		0.00%	12,011	100.00%	12,000	99.91%
PERRY-SPENCER		0.00%		0.00%	5,530	100.00%	5,530	100.00%
PULASKI-WHITE		0.00%		0.00%	2,006	100.00%	2,006	100.00%
ROCHESTER TEL. CO.		0.00%		0.00%	7,665	100.00%	7,665	100.00%
S & W		0.00%		0.00%	473	100.00%	473	100.00%
SMITHVILLE TEL. CO.		0.00%		0.00%	29,579	100.00%	29,579	100.00%
S.EASTERN IN. RURAL TEL.		0.00%		0.00%	4,180	100.00%	4,180	100.00%
SUNMAN TEL. CO.		0.00%		0.00%	4256	100.00%	4256	100.00%
SWAYZEE TEL. CO.		0.00%		0.00%	1,053	100.00%	1,053	100.00%
SWEETSER TEL. CO.		0.00%		0.00%	1,743	100.00%	1,743	100.00%
TIPTON TEL. CO.		0.00%		0.00%	5,094	100.00%	5,094	100.00%
TRI-COUNTY TEL. CO.		0.00%		0.00%	3,464	100.00%	3,464	100.00%
UNITED TEL. CO. of IN. (d/b/a Sprint)		0.00%		0.00%	234,471	100.00%	234,471	100.00%
WASHINGTON COUNTY RTC (Did not respond to data request)								
WEST POINT TEL. CO.		0.00%		0.00%	699	100.00%	699	100.00%
YEOMAN		0.00%		0.00%	1,226	100.00%	1,226	100.00%
TOTALS	18,226	0.53	265,972	7.68	3,180,329	91.80	3,440,998	99.32%